DEFENSE PROCUREMENT POLICY AND MANAGEMENT

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DEFENSE PROCUREMENT POLICY AND MANAGEMENT

TUESDAY, JULY 28, 1981

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The committee met in open session, at 10:05 a.m., in room 1318 Dirksen Senate Office Building, Senator John Tower, chairman, presiding.

Present: Senators Tower, Thurmond, Warner, Cohen, Denton, Stennis, Jackson, Nunn, Exon, and Levin.

Staff present: Rhett B. Dawson, staff director and chief counsel; Francis J. Sullivan, minority staff director; James F. McGovern, general counsel; Paul C. Besozzi, minority counsel; Christine E. Cowart, assistant chief clerk; Michael B. Donley, Robert S. Dotson, Alton G. Keel, Jr., Edward B. Kenney, Ronald F. Lehman, David Lyles, professional staff members; Richard D. Finn, research assistant; and Karen A. Love, staff assistant.

Also present: George Kohl, assistant to Senator Humphrey; Jim Dykstra, assistant to Senator Cohen; Jon Etherton, assistant to Senator Jepsen; Paul Schreiber, assistant to Senator Denton; Robert Nichols, assistant to Senator Jackson; Frank Krebs, assistant to Senator Cannon; Gray Armistead, assistant to Senator Byrd; Arnold Punaro, assistant to Senator Nunn; Greg Pallas, assistant to Senator Exon; and Peter Lennon, assistant to Senator Levin.

OPENING STATEMENT BY SENATOR JOHN TOWER, CHAIRMAN

Chairman TOWER. This committee meets this morning to receive testimony from the Department of Defense on administration initiatives in procurement policy and management.

With primary responsibility for Senate oversight of defense policy, this committee is keenly aware of the negative impact poor cost and inflation esitmates have on defense planning.

This committee has had to make the difficult decisions and tradeoffs that result from unanticipated costs and program growth.

This committee realizes the extent to which inflation and cost growth divert funding from vital programs. And this committee understands the persistent threat this poses to efforts aimed at restoring the military balance.

As a result, no committee has a greater interest in the effective allocation of defense resources.

This committee will not force unstable programs into full production until they are refined to meet the highest of military and economic standards.

The Trident and CX programs are prominent examples of this committee's attitude. There is strong, fundamental agreement on the need for modernization of our sea-based deterrent and additional airlift.

But, when faced with disparities in program planning and cost estimates, this committee has in the past, and will continue to opt for caution and restraint.

On the other hand, this committee will not stand in the way of higher production rates when military and economic commonsense indicates that is desirable. This committee also understands the benefits of multiyear procurement contracts, especially for several of our shipbuilding and tactical air programs. The F–16 is one that clearly comes to mind.

But I must also caution that the committee will hesitate to commit the Congress to multiyear contracts that fail to effectively utilize the available industrial base. Further, I want to state that the Congress will expect to play a role in deciding which programs are stable and mature enough to merit being placed in multiyear procurement.

In my view, multiyear procurement can show significant cost advantages over the long term. But to achieve maximum savings, this must be accompanied by cost-effective rates of production for combat aircraft, armored vehicles, and other high-demand items with long leadtimes.

The committee's emphasis today on defense procurement policy should not preclude a broader discussion of the so-called waste, fraud, and abuse issues which are of legitimate concern to the American people.

There is no question of the need to convince the taxpayers that they can have confidence that defense dollars are being wisely spent—particularly during a time when social spending is being trimmed. In fact, Mr. Carlucci will outline many actions the administration has taken to reduce the overall cost of defense.

I know that savings can be made in areas of popular interest—items such as travel, consultants, and consolidations. I applaud these efforts. But I am convinced that these will not compare with the savings we can achieve through broad reform of defense acquisition policy.

Moreover, the country must squarely address the costs of defense. It will not be enough to make significant progress next year, only to assume that all our problems have been solved. We must remind ourselves that 10 years of adverse trends will not be overcome in 1 year. Even while we squeeze costs and enforce efficiencies, the defense budget will have to increase if we are ever to make progress against the deficiencies we now face.

We must not mislead the public into believing that fundamental shortcomings will be overcome simply by "reordering defense priorities." It will take a commitment of time and money.

I also am convinced that the President's economic program is a vital part of this process. It will stimulate savings, improve the attraction of capital investment, broaden competition and stimulate productivity in such a way as to insure the strong economic base required to shoulder our defense responsibilities.

I would only reiterate that the magnitude of this challenge is more than apparent to the committee. We take our overnight responsibility

seriously, and this economic and military challenge provides us with every incentive to squeeze defense dollars for all they are worth.

I continue to have the utmost confidence that the experience brought to the Department of Defense by Secretary Weinberger and Mr. Carlucci will serve us well. Secretary Weinberger need not spurn the nickname of "Cap the Knife" when it comes to streamlining management and acquisition policy. In fact, to keep his reputation, he may have to go the extra mile.

Senator JACKSON. Mr. Chairman?

Chairman TOWER. I yield to the Senator from Washington.

Senator JACKSON. I am involved in the Intelligence Committee which has some very important business. I regret that I can't stay through the morning hearings. I merely want to commend the chairman, the Secretary of Defense, Deputy Secretary Carlucci and the others for their cooperation in this endeavor. I have a statement which I would like to include, if I might, in the record at this point as if read in the interest of time.

Chairman TOWER. That may be done.

[The prepared statement of Senator Jackson follows:]

PREPARED STATEMENT OF SENATOR HENRY M. JACKSON

Harry Truman, back when he was a member of the Senate during World War II, was concerned that military officials and contractors were wasting tax money and taking advantage of the war to increase spending and profits.

He spearheaded formation of the Special Committee to Investigate the National Defense Program, also known as the Truman Committee, to watchdog increased defense spending.

It worked. Harry scared hell out of both the generals and the contractors. And saved billions of tax dollars.

In his memoirs, Truman recalled:

> Just the fact there was such a committee, that there was an investigation going on caused a lot of people to be more honest.
>
> Wrongdoers were learning to respect the "Truman Committee," and consequently many of them began to clean house hurriedly because of a fear that they might be next to come before the committee to explain their role in the national defense effort.
>
> Somebody has to keep tabs on the military and all the time, too. All they know how to do is to spend (money), and they don't give a damn whether they're getting their money's worth or not.

If Harry Truman were with us today, I think he'd probably suggest we give a "60 Minutes" crew an office over in the Pentagon.

The fact is we have general support among the American people today for increasing expenditures to shore up our lagging national defense system.

All of us wish there was no need to increase defense spending, but most agree that it is absolutely essential if we are to safeguard peace and the future of individual liberty.

But the fastest way for that general support to evaporate is to have a long string of fraud, abuse and cost-overrun cases hitting the front pages.

The American people will not tolerate it and I want to put the Pentagon on notice today that we will be watching where every dollar goes. All of us—members of this Committee and others in the Congress, the Pentagon and defense establishment, and the press—share in this important responsibility.

The Pentagon has not been given a blank check.

It is encouraging that the Defense Department has indicated its intention to improve the acquisition process and curb abuse and inefficiency in the management of defense programs. Some constructive steps are already underway. Earlier this year, Secretary Carlucci reviewed Pentagon procurement policy and a start has been made on implementing his recommendations for reducing costs. Secretary Weinberger has created a new high-level position to assist him in watchdogging waste and fraud in DOD programs.

I applaud those moves and hope to see more effort in this area.

As I see it, there are three particular areas requiring attention:

First, there is the basic issue of procurement philosophy. Procurements must be related to overall strategic objectives if we are to avoid needless and irrelevant weapon expenditures. We cannot and need not attempt to match each and every weapon system that the Soviet Union is known to be pursuing. Rather, our weapons program should be based on the security needs and objectives of the U.S. This should be the guiding principle in our weapons acquisition program.

Second, we should look at the complexity of our weapon systems. Is much of the equipment we add to our various weapon systems necessary? Does it, in the end, enhance the effectiveness and reliability of the system? There is considerable room for cost-cutting in this area.

Third, we should take a careful look at particular weapon systems—those plagued with cost-overruns as well as reliability problems. For example, we have a tank that some investigators claim is wonderful, for the 30 miles or so it runs before breaking down. The same tank is so heavy that it generates a huge and costly supporting cast, including a special railroad flatcar and a new cargo plane to transport it.

Given the concern with defense spending, there is a temptation to engage in a swing of the cost-cutting axe, attended by much fanfare, which, in the end, yields more in headlines than in lasting results. The struggle against mismanagement and waste in defense programs must be waged steadily and vigorously.

This hearing begins what I hope will be a thorough and continuing examination by this committee of the way we manage the Pentagon.

Chairman TOWER. We yielded out of order to Senator Jackson with apologies to Senator Stennis.

Senator STENNIS. I am delighted to be here because of the importance of the subject matter. I have great interest in that matter. More emphasis has to be given to it. I understand there will be a rollcall soon. I will come back to the session. I should like to say something later.

Thank you very much.

Chairman TOWER. Thank you Senator Stennis.

Gentlemen, we are very interested in what you are doing and I hope that what you have to say today will be well covered by the mass media. We have gotten quite a bit of unfavorable press for defense lately. I think some of it has been unfair and reflects rather shallow investigation. I think that some stories perhaps some books being written have been misleading. It is sometimes suggested that we can get by on a lot of cheap systems and therefore save money. An assertion by a major network that the Soviet philosophy is to buy great numbers of simple systems is simply untrue. In fact they are making technological improvements in their systems all the time.

If anyone expects the United States to play a numbers game with a lot of cheap systems you are going to have to have a lot of people to go along with them and you will have to put their lives at risk when they come up against some very, very sophisticated Soviet systems indeed. I don't think we should convey the impression or do anything to sustain the impression that we can do defense "on the cheap." We cannot do it. But we can certainly, I think, get value for our defense dollars.

I would have to concede that there has been some dereliction in the past both on the part of the administrations and the Congress in exercising more careful oversight. I will say, however, I believe defense has as good a spending record as any other spending agency. As a matter of fact I call attention to a statement made by Mr. McIntyre, the outgoing head of the Office of Management and

Budget under President Carter. He said if he had to grade all the spending agencies on their performance he would give Defense a C; he would flunk all the rest of them. But defense is our responsibility and we intend to exercise that responsibility.

I am glad that steps are being taken and progress is being made.

Mr. Carlucci, we are delighted to have you here. If you will introduce your colleagues at the table we will proceed with the hearing.

STATEMENT OF HON. FRANK C. CARLUCCI, DEPUTY SECRETARY FOR DEFENSE, ACCOMPANIED BY RICHARD D. DeLAUER, UNDER SECRETARY OF DEFENSE FOR RESEARCH AND ENGINEERING; JOHN R. QUETSCH, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER); AND JOSEPH SHERICK, ASSISTANT TO THE SECRETARY FOR REVIEW AND OVERSIGHT

Mr. CARLUCCI. Thank you very much, Mr. Chairman. My colleagues are, on my right, Dr. Richard D. DeLauer, Under Secretary of Defense for Research and Engineering; on my left, Mr. John Quetsch, who is Principal Deputy Assistant Secretary of Defense (Comptroller); on his left, Mr. Joseph Sherick, who is Assistant to the Secretary of Defense for Review and Oversight.

Mr. Chairman, I have submitted a rather lengthy statement. I do not intend to read it at this hearing.

Chairman TOWER. May I say that you or any of your colleagues may submit complete papers for the record and summarize them.

Mr. CARLUCCI. I do have a brief statement, Mr. Chairman, and I apologize but copies of this statement will be made available momentarily. Let me go through it.

I do appreciate the opportunity to appear before this committee to explain to you DOD's programs to insure that the American people's money is being spent wisely, to use your term, Mr. Chairman, and that we are getting value for our defense dollars. Let me say that I agree very much with you that defense is not cheap. We are required by the sophisticated systems of our adversary to have our own sophisticated systems. Indeed, this country has led in technology.

It has been the cutting edge in previous wars and we are counting on it in any future conflict which of course we hope to avoid.

In the next few weeks we will be making decisions in the Defense Department which will shape our military posture for years to come. We have been hard at work making the management and acquisition changes which are necessary if the implementation of these decisions is to be orderly, efficient, and rational. A five point program to do this is now in place. I would like to describe that program to you.

The first element is the reform of internal management processes.

Quite frankly, Mr. Chairman, when we arrived at Defense we found that there were a number of management systems that had been installed throughout the years, but one system did not relate to another. Indeed, many were duplicatory. Our efforts are directed at reducing paperwork, simplifying the Department's many management systems, and getting them to function in harmony.

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The Defense Resources Board, which I chair, has been restructured and placed in charge of the total planning, budgeting, and programming process. Participatory management insures that everyone who has a legitimate interest in the outcome of the decision participates in that decision.

Most fundamentally, we have strengthened the planning process so that strategic thinking drives the budget and not vice versa as it has in the past. The respective roles of the Office of the Secretary of Defense staff and the Service Secretaries have been clarified, with the latter having increased responsibility for line management operations and the former concentrating on advice on policy matters.

The second element in the program is acquisition reform to which you referred in your statement. Our lead times are too long, and programs have been plagued by cost escalations. There are no simple solutions. A total attack is required. We have just put together 32 mutually reinforcing initiatives. The principal points of these initiatives—and I would like to submit if I may, Mr. Chairman, the entire package for the record—the principal points are:

More economic rates of production to reduce unit costs and acquisition time.

Increased program stability through full funding of R. & D. and procurement at levels sufficient to accommodate design changes, testing, supportability, and readiness.

Greater stability in economy through multiyear contracts.

An evolutionary approach to weapons system development through preplanned product improvement (P^3I) rather than pushing of the frontiers of technology in every new weapons system.

A simplified approval process for improvement in decisions on weapons systems acquisition, so-called DSARC milestones.

Enhanced authorities and responsibility in the hands of program managers.

And finally, increased stress on competition.

I might note that this last point has recently been added to the original 31 points. We had intended that competition run through all 31 points. They are directed at, increasing competition, but we agree with Members of the Congress who have pointed out that this goal should be made explicit.

The third element is a targeted attack on waste, fraud, and abuse. A high ranking and experienced official, Mr. Joseph Sherick, who is with us today, has been appointed as assistant to the Secretary for Review and Oversight; a new position. He is charged with monitoring and evaluating inspection, auditing, and review policies and procedures. He represents DOD on the President's Council on Integrity and Efficiency.

DOD has been issued a strict new directive prescribing followup policy on internal audit and GAO reports. I might note parenthetically that, in the past, we have not done as well as we might have on audit followup and resolution. All significant open audit findings will be resolved by September 30, 1981, and further recommendations are to be resolved within 6 months. A draft directive on contract audit resolution will be issued in 30 days. This directive will require

tracking of all significant contract audit recommendations except those related to proposal and evaluations.

On a contractual action of $500,000 or more, the contract together with the contract auditor's findings and recommendations will be referred to an independent acquisition officer, board, or panel for review to make a final determination on proposed negotiation position.

The fourth is a tough program review process. Fifty-one programs were reduced or eliminated in the 1982 budget. A larger number of lower priority programs will have to be either reduced or eliminated if we are to meet our fiscal year 1983 budget goals. The DRB is charged with this responsibility. In this area congressional support is essential.

The fifth point of the overall program is revitalizing our industrial base. As this committee is aware, our industrial base has dried up to the point where we have a dangerous situation if we are obliged to fight a lengthy war. We have supported in this connection:

A tax bill which recognizes equipment replacement costs.

A higher threshold on progress payments which are now at 85 percent of cost for large contractors and 90 percent for small contractors. We intend in August to experiment with a flexible progress payments scheme.

Stepped-up incentives for productivity by industrial contractors.

Payment by prime contractors to vendors before primes are paid.

Reduction of regulatory burden.

Development of comprehensive training to address shortage of engineering talent and critical shortage of blue-collar workers.

We recognize, Mr. Chairman, that management reforms have been tried in the Pentagon before, and that problems still remain. This does not mean, however, that every previous program was unsuccessful. We do think, however, that this program is unique in three respects:

First, it is comprehensive. It draws together into one effort many initiatives which have, in the past, been approached in a piecemeal fashion.

Second, we developed many of these initiatives through a participatory process which has won genuine support within the Pentagon and the contracting community as well.

Third, and perhaps most important, we have a consensus today which recognizes the need for a stronger defense. This offers the opportunity to provide a steady commitment to make these programs work.

In the past, as you are aware, Mr. Chairman, funding has gone like a roller coaster from valley to peak and back. This is destructive of orderly process of efficiency, and ultimately of national security. I expect that this program will streamline our operations and provide long-term stability so as to improve our defenses and thus demonstrate to the American people that we are worthy of their continuing trust. We are counting on this committee for sustained support in this effort.

Thank you, Mr. Chairman. This concludes my statement. I am prepared to respond to any questions you may have.

[The prepared statement of Mr. Carlucci follows:]

PREPARED STATEMENT OF FRANK C. CARLUCCI, DEPUTY SECRETARY OF DEFENSE

Mr. Chairman and Members of the Committee, thank you for the opportunity to speak before this committee and tell you what we are doing in the Defense Department to make sure that the American people's money is spent wisely.

Before going on to the body of my testimony, I would like to make a few remarks about technology and warfare—a subject which has recently been the subject of more attention than sound thought in public discussion.

The United States has the strength, and it is a strength we have always used to put superior technology to work for us, in peace and in war.

The Soviets, on the other hand, up until the past few years, have relied on sheer numbers, bigger missiles, heavier payloads, more tanks, and so on. The general idea behind our approach to building weapons has been to counter this preponderance of numbers with a superiority of design, speed, maneuverability, and firepower. This makes good sense because it draws on our traditional genius for innovation, and I cannot imagine any responsible critic arguing that we should rest our defense on producing the same kind and number of weapons the Soviets do. But, the truly alarming piece of news about the Soviets is that for the past two decades or so they have been showing every sign of taking advanced technology seriously, too.

For a decade, Soviet investment in research and development has exceeded our own by about $85 billion. The result has been the deployment of a vast amount of high quality military hardware: tanks that can travel at high speed over rough terrain and destroy targets at night or in bad weather; attack submarines that can patrol large areas of ocean at speeds up to 40 knots with sophisticated systems for detecting and attacking other submarines and ships; new highly accurate intercontinental ballistic missiles capable of destroying our missiles in their silos; new fighter aircraft that attack targets at night, in bad weather, and beyond visual range. These are among the many new threats we face. And the situation is worsening as the Soviets continue to "out-produce" us and "out-invest" us in high quality military hardware.

Now we are outnumbered in almost every category, and we will not be able to change that situation. Our best hope is to take advantage of our technological lead. The M–1 tank, the Trident submarine, the F–15 fighter, and the M–X missile are designed to do that. These systems can permit us to "take charge" of the course of a battle rather than force us into a "one-for-one" war of attrition. They give us the flexibility to counter possible technological "breakthroughs" by the Soviets. And they are our best hope in fighting outnumbered and winning.

Our new systems are designed to meet today's threats; the simpler and cheaper systems they replace can no longer counter the advanced weaponry of our potential adversaries. But many of the advances we will employ are not available to us for seven or eight years because of the time required to plan and produce them. And that makes it all the more imperative that we continue to recognize the importance of superior technology.

These are some general observations about how we are spending the money entrusted to us. Now, I would like to talk about what we are doing to save it.

PROGRESS IN IMPROVING ACQUISITION

As you may already know, the Defense acquisition process has been under intense scrutiny since early March. This massive effort employed the full time of many of our acquisition experts and culminated in my April 30 direction to change the way we do business. We are well underway at this point. What I have asked for is not new. It has been studied almost to death. All we are trying to do is implement good business management throughout the Department of Defense from the top down.

Management teams at both the OSD and Service levels have been established. The overall responsibility for implementing our new initiatives rests with Dr. Dick DeLauer, the Under Secretary of Defense for Research and Engineering.

I have submitted, for the record, my April 30 memo, which outlines our initiatives in detail. An examination of my memo will show that we have classified our initiatives into near-term and long-term categories—into initiatives that we can implement and initiatives that will require OMB or Congressional action. Of the 32 initiatives, 17 are short-term. We should be able to meet these objectives within one year. The remaining 15 are longer term initiatives. While most of the initiatives can be implemented from within the Department of Defense, nine will require OMB or congressional action for implementation.

I am pleased to report to you that we are making progress in all categories. Looking first at the nine which involve OMB or Congress I am happy to say that the record looks good. Six of these nine will require congressional action. On four of these six there have been proposals by at least one committee in the Congress. These four are:

Multiyear Procurement.
Encouraging Capital Investment.
Reducing Administrative Costs and Time.
Governmental Programs.

In both the Senate and House much of our support has come from the Armed Service Committees. I strongly urge you to support the work done by these committees to date. We are opposed to the amendment proposed by the House-Government Operations Committee. That committee has deleted almost all the legislation initiated by the House Armed Services Committee in favor of proposed series of test programs that could run for years before the legislation we need is passed. In addition, more legislative initiatives will be needed to fully implement some of our programs. Reducing Government legislation related to acquisition, for example, will eventually require sweeping changes of existing laws to be fully implemented. Although some legislation in this direction has been proposed, no effort of the magnitude envisioned in the management initiative has been started yet.

One initiative—that dealing with funding flexibility—will require at least the consent of the four key Defense Oversight Committees, if not legislation. No concrete action has been taken on this to date by Congress.

This brings me to the twenty-two initiatives we believe we can implement within the DOD. Thirteen, we believe can be implemented within one year. Implementation has already begun on these. Some are easier than others. For example, in the acquisition process, we used to require that a Defense System Acquisition Review Council (DSARC) decide whether to continue the acquisition of a particular system at various stages during its development. Some of these DSARCs were unnecessary and only delayed the system. We are now changing our DSARC process. The Services have been relieved of a number of the more unnecessary DSARC's already. Other initiatives will require the summer's funding cycle to run its course before we can say we've done our job. Initiatives like front-end funding for test hardware and budgeting to most likely costs, require a budgeting cycle to run its course for implementation to take place.

The 10 remaining initiatives are long-term initiatives. Again, some of these are tied to the budget cycles or to programmatic cycles. Initiatives like budgeting funds for Technological Risk and Assuring Appropriate Contract Types require programs to run their course before being fully put into effect. On these we are stressing the need to integrate these new initiatives into long-range planning.

The 32d initiative, although last, is one of the most fundamental. It aims to improve the acquisition process through greater competition. It is the policy of this Department to purchase required supplies and services on a competitive basis wherever feasible. Competition results in technology advances, lower prices, and better quality. I am directing the Military Departments and the Defense Logistics Agency to intensify their efforts towards increased competition in their purchases.

As I said earlier, I believe that implementation is the key to changing the Acquisition Process. Accordingly, I receive a monthly status report from Dr. DeLauer on this effort. I'm glad to say, however, that Dick DeLauer has at one time or the other studied almost all of these initiatives as a part of his work with various government and industry study groups and agrees with me that we have had enough studies. Now it's time to act. Two areas where we are making progress in implementation are: multi-year contracting and improving the connection between the acquisition process and the Planning, Programming, and Budgeting System.

We are handling multiyear procurement on a case-by-case basis. Currently, we are working with the Services to nominate appropriate candidate programs for submission to Congress in the normal budgeting process. As you know, Mr. Weinberger testified on June 23 on behalf of H.R. 3519. If the cancellation ceiling is lifted, as provided for in H.R. 3519, we could start saving substantial sums by making selective multiyear applications.

We have revised our directives to eliminate confusion between the acquisition process and the PPBS. As a result, the systems we buy will be more directly related to the plans and policies they support.

EFFICIENCIES AND ECONOMIES

Another area we are working hard at within the Defense Department is to eliminate waste and improve cost effectiveness. The Secretary and I share a steadfast commitment to this. We demonstrated that commitment, I believe, shortly after we assumed our responsibilities during our initial assessment of defense budgetary needs.

As you are well aware, the administration substantially revised the Department of Defense budgets for fiscal year 1981 and fiscal year 1982 in a matter of weeks. During that process we took a number of actions which together will produce savings of $3.2 billion in fiscal year 1981 and fiscal year 1982 outlays. Aside from pay adjustments, we made more than 50 specific program reductions besides cuts in a number of other operations and procurement programs. We will continue to press for additional savings in these areas as we look to detailed review of the fiscal year 1983–87 programs and development of the fiscal year 1983 budget request.

The work of revising the fiscal year 1981–82 budgets was an item of the highest importance. But at the same time that was going on, the Secretary and I also reviewed the entire DOD PPBS as well as the acquisition process. The specifics of our decisions on these two reviews are discussed elsewhere in this statement and have been made available to you. But in the context of testimony today, I want to stress that these two reviews demonstrate the Secretary's personal concern with and emphasis on improving management systems as a principal means of making defense operations more efficient.

In addition to our focus on budget needs, and our reviews of the PPBS and the acquisition process, we have also been studying a number of suggestions from outside the Department for improving defense operations within it. The Comptroller General, the Congressional Budget Office, and individual members of Congress, among others, have provided us thoughts and proposals. Former Comptroller General Staats, for example, presented 15 agenda items for consideration. The Congressional Budget Office outlined 15 "illustrative examples" of possible defense savings among 105 such examples in its study "Reducing the Federal Budget: Strategies and Examples, Fiscal Year's 1982–1986."

We decided to review these proposals by assigning each one to a primary office within the Department. That office was responsible for reviewing the proposal and suggesting a course of action. The Secretary and I then reviewed these suggestions.

Secretary Weinberger and I have personally reviewed the 15 agenda items proposed by Comptroller General Staats on January 21, 1981 and the 15 possible actions proposed by the Congressional Budget Office in Februray 1981. Of the 15 GAO items, we accepted 11 or asked that option papers be developed. I would like to note here a couple of the items we have gone ahead with.

For the past several years, we have been carefully studying a proposal to achieve substantial economies and efficiencies by transferring the wholesale inventory management responsibility for 1.3 million consumable items from the Military Services to the Defense Logistics Agency (DLA). This proposal was included in a letter from Comptroller General Staats to Secretary Weinberger on 21 January 1981, concerning a proposed agenda of significant management improvements and cost reduction opportunities in DOD.

On July 7, 1981, I announced a decision to transfer wholesale inventory management responsibility for 200,000 consumable items from the Military Services to DLA within the next six months. Upon completion of this transfer, we will evaluate the situation to determine if it is feasible and desirable to transfer additional items to DLA. A DOD Joint Implementation Group recently convened and is currently working to develop a plan to accomplish the transfer. We expect this transfer to generate annual recurring savings of approximately $15 million. Further savings will be attained if, at the conclusion of the transfer, our review indicates that additional items should be transferred to DLA.

The GAO and the Congress have asked us to consider the further application of the single manager concept to transportation activities. Recent DOD studies and exercises have confirmed the need to improve the management of transportation to achieve peacetime economies and efficiencies, and improve wartime responsiveness.

In response to these findings, I have directed a three-part action program. First, to improve peacetime and wartime transportation operating efficiency and responsiveness, we are consolidating the sealift cargo offering and booking

process under the Military Traffic Management Command. This will bring together in one command the management oversight of DOD cargo movements from origin to destination.

Second, to improve the management and procurement of domestic passenger transportation services, I have asked for a review of the relationships and responsibilities of the commands and Defense installations involved. Our objective is to tailor our structure so that we can realize the service and cost reduction benefits of a deregulated transportation environment and improve wartime responsiveness.

Finally, to improve deployment planning and management, I have asked the JCS to develop a plan for strengthening the organizational and procedural framework for performing joint wartime mobility planning, force deployments, and peacetime and wartime traffic management. Taken together, these actions will produce significant economies and efficiencies and improve the capability of the transportation system to transition from peace to war—a capability which is essential to wartime readiness.

We are going to study two items further, and we did not accept two items. Of the 15 CBO proposals, we approved action on seven, we propose to study four further, and we did not accept four. We then asked the Military Departments and others concerned to provide further views on these items since a number of them represent a significant departure from current practices. We expect to announce the results of our review of the GAO/CBO items after consideration of the Services' viewpoints within the next several weeks.

On the subject of our review of possible efficiencies and economies, I want to focus for a moment on two related issues: savings and the speed with which actions can be undertaken. In come cases the GAO and CBO proposals have been reviewed in the past by DOD but not accepted. The Secretary and I are not willing to halt a review just because "it's been studied before." At the same time, before making a decision, I want to listen to the points of view of those competent to judge the question, and I need to hear from those in particular who must live with the decision as it affects their responsibilities. All of this takes time.

Several of GAO's proposals in the logistics area are, for example, extremely controversial. We are now reviewing further consolidations of supply operations and the possible use of a single manager for aeronautical depot maintenance. The Report on the fiscal year 1982 Authorization Bill from the House Armed Services Committee expressed concern and urged further caution in moving ahead in these areas. In other cases, we find GAO proposals immediately agreeable or else parallel to our own. The GAO's call for more multiyear procurement is an example of the latter. But we need to develop specifics, approve them internally, and present them to Congress for consideration.

I should mention, however, that savings from specific actions over the next several months can not be achieved until preparation of the fiscal year 1983 budget or later. Moreover, the nature of some of the actions under consideration and our past experience with these suggest that the near term effect could be to increase costs temporarily even though the eventual result will be longer term savings.

As I said earlier, there have been suggestions for savings other than those which came from the GAO and CBO reviews. The Secretary and I have completed a review of 35 proposals offered by the Republican Study Committee. All of these proposals were drawn from GAO audits. In 25 of the 35 cases, our review indicated that DOD had already accepted the GAO recommendations or, that actions to the same end were under way. For example, last year the Air Force redirected its proposed base level computer replacement program along the lines proposed by GAO, and we already are moving to make better use of spare parts inventories as the GAO suggests. In 10 cases we agreed with past positions which rejected GAO recommendations.

Many of these proposed "savings" also were of the cost avoidance type. The amounts were never in the DOD budget to begin with, so that accepting GAO recommendations did not lead to savings from existing or projected defense budgets. Here again, we have referred the results of our review to the Departments concerned for their final consideration. We expect to have the results of this review available for the Committee and others within the next several weeks.

Our review of the older audit findings which were forwarded by the Republican Study Committee served several purposes:

First, it gave us an opportunity to check the status of a number of audit recommendations. As I noted earlier, we found something was already being done in those cases where the Department had committed itself to take action. Thus, I was reassured to learn that we had been following up on audit findings.

Second, I think it is fair to say that our audit followup system itself needs additional effort and we are doing something about it.

Secretary Weinberger has appointed Mr. Joseph Sherick as Assistant to the Secretary of Defense (Review and Oversight); to serve as his principal advisor and assistant for matters related to combating fraud, waste, and abuse in DOD programs and operations. This is a new position and its establishment reflects the seriousness with which we regard this issue. He will also be the DOD representative on the President's Council on Integrity and Efficiency. In carrying out his responsibilities, among other things, the ATSD(R.&O.) is charged to: monitor and evaluate the adherence of DOD Components to internal audit, contract audit, and internal review principles, policies, and procedures. He will also:

Identify instances of noncompliance and recommend appropriate actions to Secretary Weinberger or the responsible DOD Component head.

Develop policy, evaluate program performance, and monitor followup actions taken in response to GAO audit, internal audit, contract audit, and internal review reports; and

Identify cases in which audit recommendations that can improve the economy of programs have been ignored and recommend corrective action to the Secretary or the responsible DOD component head.

We believe more effective audit followup will greatly enhance our ability to make defense operations more efficient.

Recently, we issued a final directive prescribing followup policies on internal audit and GAO reports. We intend to resolve older open audit findings by September 30, 1981, and see to it that future recommendations are resolved within six months. We have issued a draft directive on contract audit followup and intend to issue the final directive within 30 days. This directive will require tracking of all significant contract audit recommendations except those related to proposal evaluations. It will also require that an independent acquisition official, board, or panel review the contracting officer's pre-negotiation objectives in connection with all negotiated contract actions involving $500,000 or more. The official, panel, or board will review, along with other technical materials, the contract auditor's findings and then make a final determination.

IMPROVEMENTS IN THE BUDGETING AND PLANNING PROCESSES

We are also looking to improvements in the budgeting and planning processes to make the Defense Department more efficient.

IMPROVED PROGRAM REVIEW PROCESS

As you know, Mr. Weinberger and I believe that the Department can also be made more effective in using its resources if the program review process is improved. To this end we have:

Streamlined the program review process.

Strengthened long-range planning.

Initiated performance reviews.

Clarified the responsibilities of the Service Secretaries and the OSD staff.

STREAMLINING PROGRAM REVIEW

When we took office, we discovered that thousands of pages of documentation were being submitted as part of the annual program review process. I set a goal of reducing the documentation associated with program review by 50 percent. We have met that goal and more. The submissions this summer, while considerably fewer in pages than last year's proposals, still provide adequate information to accomplish the major priority and cross-Service review that we require.

STRENGTHENING LONG-RANGE PLANNING

We also discovered when we took office that the Department needed a better long-range planning process to guide program preparation and decisions. The strengthened long-range planning process is being led by the Under Secretary for Policy, with contributions from the Joint Chiefs of Staff, the Services, and members of the OSD staff.

We recognize that nearly two decades of underinvestment in U.S. capabilities cannot be repaired at once and that study is required. We also recognize that

traditional answers to what is "required"—in numbers and types of weapons systems and in roles and missions—may not be adequate. Formulating answers, and providing the guidance for steady development of a well thought out defense program is the goal of our strengthened planning process.

THE SECRETARY'S PERFORMANCE REVIEW

Good planning and good programming will not by themselves ensure that the nation's defense requirements are met in an economical and efficient fashion. Close monitoring of program execution is also required. For this reason, we have established the Secretary's Performance Review.

Our basic approach is adapted from the private sector, where it has worked very well. We focus senior leadership attention on the key problems, issues, and programs through a series of regularly scheduled top-level review sessions chaired by the Secretary or by me. These meetings emphasize measuring progress toward meeting important defense objectives, identifying problems that need to be resolved, and discussing ways that our performance can be improved. This technique allows for personal contact between the Secretary and those who are directly responsible for various critical DOD programs or functional areas. Thus far we have reviewed the Army's manpower program, the Navy's sealift program and the choice of a missile for the Trident submarine, and the Air Force's airlift and readiness and sustainability. Sessions on a wide range of other major topics are scheduled for the months ahead on a weekly basis.

CLARIFYING MANAGEMENT RESPONSIBILITIES

My memorandum to the Department of March 27, 1981, ("Management of the DOD Planning, Programming and Budgeting System") emphasized centralized control of executive policy and more decentralized policy execution. The Secretary, the Chairman of the Joint Chiefs of Staff, the Service Secretaries, and I will concentrate on major policy decisions. The Services will be responsible for the development and execution of the necessary programs and day-to-day workings of the resources under their control. Thus, this Administration intends to strengthen the role of the Service Secretaries, looking to them for the direct supervision of the Military Departments.

With this increased responsibility comes increased accountability. The Secretary's Performance Review is one way to ensure that those who are responsible for a program are fully accountable for its results. We will not hesitate to take corrective action when we find that Service programs are not proceeding according to the Secretary's decisions or Administration policy. We have made it clear to all concerned that "game playing" must end.

It is equally important that the OSD staff renew its attention to policy, planning, and program issues which cut across Service lines, as well as those issues that are of immediate interest to the President and the Secretary of Defense. Specifically, the OSD staff will provide the technical cross-Service and major mission analysis necessary to integrate the capabilities of the Services, and to meet the objectives identified by the President and Congress. I have also directed the OSD staff to work closely with the Services to plan for additional standardization of joint programs and systems.

The final part of our approach is participatory management. Everyone who has a legitimate interest in the outcome of a decision must participate in that decision. To this end, I have enlarged the Defense Resources Board (DRB) to include the Service Secretaries. This board, which I chair, is the principal governing body for the Department's program review process.

At the same time, I have directed that only major issues be raised before the DRB. Lesser issues will be decided outside the DRB forum by the Services and the OSD staff. I have set up a Program Review Group made up of appointees chosen by each DRB member to cull out minor issues, arrange for agreements reached by consensus, and to assure that efficient staff work is completed to make DRB meetings more effective than in the past. This process, which is now underway, will free the DRB to concentrate on major issues.

SUMMARY OF OUR INITIATIVES TO DATE

We have streamlined the program review process and reorganized the DRB so that the Secretary of Defense, his senior staff, and the Service Secretaries can concentrate on the major issues which face the Department. We have insti-

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tuted a participatory approach to making decisions that should avoid dwelling unecessarily on what has already been decided, as well as avoid the program instability which results. We have strengthened the long-range planning process to improve the match between the Defense Department's capabilities and the nation's military strategy. And we have changed roles of the OSD staff and the Service Secretaries so that responsibility for our major programs is clear. Taken together, these steps will help us pinpoint and implement the efficiencies and economies we all seek in defense spending.

USING MANPOWER MORE WISELY

We are also working on a number of economies and efficiencies in the manpower area. For example, as a way of reducing the demand for military personnel we are looking into the idea of putting civilians in support jobs now held by military personnel who could then be assigned to combat positions. We have little difficulty finding civilians to work in the Department, and the cost is usually less to recruit and train civilians for support jobs than for military people who must undergo combat training. If we can put civilians in military support jobs we will help to balance our resources more efficiently.

We are also negotiating with our NATO allies to determine ways they can provide more support for our forces in peace and war. In this way our allies will be taking a larger role in NATO and thus reduce the demand for U.S. military personnel overseas.

We are also looking for ways to reduce the total number of DoD civilians. For example, we are investigating potential investments in labor-saving equipment. We believe that such investment can increase the productivity of work force and, thereby, reduce the need for both military personnel and civilians.

One of the best ways to save money and gain efficiency is through the contracting out program. In this program we review activities of the Department of Defense, that are similar to industrial activities, to determine the most cost-effective way to do the job. The essence of the program is competition—competition among private contractors and government employees. Typically we find that this competition saves money and improves our operations even in those areas where the government employees win the competition. Our experience shows that about 50 percent of the activities reviewed will be converted to cost-effective contract performance at an estimated savings of $6,000 per space converted. Those functions that stay within the government also yield savings. For every space that is kept, the government saves about $1,000. This program allows us to transfer military personnel from these support functions into positions that are more directly combat related.

The program also takes careful account of the Department's readiness needs, and of course will not contract out activities directly required for national defense needs. About 80 percent of the Department's commercial and industrial activities fit into this category.

BETTER STRATEGIC PLANNING IN DOD

Our concern, however, for more effective decision making, and economy will not detract from the attention we must pay to strategic planning. Unhappily, all too little attention had been paid to that in recent years, and the programming process became preeminent. One result was the loss of focus. Another was a drift to micromanagement.

Accordingly, Secretary Weinberger and I determined to revitalize and emphasize front-end planning as the sine qua non of an improved system featuring the principles of centralized policy direction, decentralized execution and participatory management. It is our expectation that the revised system will:

Help us achieve the integrate and balance military forces necessary to accomplish our national military strategy.

Ensure that we can deter aggression and succeed in combat if deterrence fails.

Provide framework necessary to ensure successful attainment of our objectives within national resource limitations.

The improved planning process will contribute to these goals by enhancing cooperation among the Military Services and all components of the Department.

Although we are already using some elements of this new planning process in preparing the fiscal year 1983 budget, it will not be instituted fully until this summer when we initiate planning up front for the fiscal year 1984 program and

budget. A concentrated DOD planning process is presently underway which will be made up of three phases which: first, identify capabilities required to achieve U.S. objectives; second, establish probable resource constraints; and third, direct the application of the resources we have so as to maximize our capabilities and minimize risks to the national security. The third phase will include explicit consideration of any mismatch between our long-range objective strategy and projected capabilities. The process will culminate in January with the publication of a single Department-wide document, *The Defense Guidance.* This guidance will provide a central strategic planning framework on which all DOD programs will be based.

We intend that the development of the Defense Guidance will be a team effort, engaging the time and talent of the senior leadership of the Department—the Service Secretaries, the Joint Chiefs of Staff, the Assistant Secretaries of Defense, and the Unified and Specified Commanders. Top Defense leadership, through the medium of the Defense Resources Board, will concentrate on issues which have broad policy, force, program and resource implications; lesser issues, unique to individual Services will normally be left to their determination. The members of the Board will privide the Secretary their best collective judgment on the optimum allocation of resources and the most effective solutions to problems from a national, rather than parochial, point of view.

Another major dividend we expect from the process I have outlined is closer and more active cooperation among the Military Services and all components of the Department. In the decade ahead we face an adversary who funnels an abnormally large portion of his GNP into an aggressive and threatening military machine. We can overcome the resulting imbalance in part through fostering more teamwork among our Military Services and our allies. An underlying principle of the National Security Act, as amended in 1958, was proposed by President Eisenhower as follows:

> . . . separate ground, sea, and air warfare are gone forever. . . . Our country's security requirements must not be subordinated to outmoded or single-Service concepts of war.

His far-sighted forecast remains true today. The teamwork our military forces require can be developed only through their full participation in the planning process. With that participation, however, comes responsibility, and the Secretary and I shall expect that. We are heartened by the response to our initial *Defense Guidance,* prepared this spring, and we anticipate continued cost-conscious improvements to our national security posture as we move into the future.

I hope that all of this gives you some idea of what we are doing in the Defense Department to save money and improve the way we do things. We take these matters most seriously, not only because they are important in themselves, but because if we do not act in this area others will do so for us. I realize that there is still room for more improvement, and our efforts in this area have not slackened and shall not in the future. We ask only for your help in some specifics and understanding for what we are doing in general.

Thank you.

Chairman TOWER. Thank you, Mr. Secretary. Do you want to call on any of your colleagues to speak or just to answer questions?

Mr. CARLUCCI. I will utilize them in the question and answer period, Mr. Chairman.

Chairman TOWER. Mr. Secretary, could you elaborate more on what you have done in terms of consultation with the defense contracting community? Have you gotten the major contractors in the Pentagon and sat them down and said, "Look, we have to institute some reform. We have to improve our way of doing business"? Have you had some direct consultation of that kind with the contractors themselves?

Mr. CARLUCCI. Mr. Chairman, we have had extensive consultation with the contracting community. We consulted with them at some length before we put together our 32-point program. Since then both Dr. DeLauer and I have met with various contracting groups.

We have reviewed with them the 32 points. We have encouraged their cooperation. I might say the response has been encouraging. They are all supportive. They understand the problems. I think they are willing to work with us to try to resolve the problems.

You might note, Mr. Chairman, that one of the points in the 32-point program is directly addressed to the relationship between the Defense Department and the contracting community. There was a sense in the past that there was almost a hostile relationship between DOD and the contracting community. We recognize, that we have to maintain an arms-length relationship with the contracting community. We have to be certain that we follow all our rules and regulations and observe full propriety. At the same time the relationship need not be an adversarial one. It can be cooperative because we all share the same goals.

The answer to your question, we consulted with them, both before and after we put together our initiatives. We think we have a cooperative relationship and we are encouraged by their positive attitude.

[The DOD paper on Improving the Acquisition Process follows:]

DEPUTY SECRETARY OF DEFENSE,
Washington, D.C., April 30, 1981.

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS, CHAIRMAN OF THE JOINT CHIEFS OF STAFF, UNDER SECRETARIES OF DEFENSE, ASSISTANT SECRETARIES OF DEFENSE, GENERAL COUNSEL, ASSISTANTS TO THE SECRETARY OF DEFENSE

Subject: Improving the Acquisition Process.

On 2 March 1981, I directed a 30-day assessment of the Defense acquisition system with the priority objectives of reducing cost, making the acquisition process more efficient, increasing the stability of programs, and decreasing the acquisition time of military hardware. The report, delivered to me on 31 March 1981, provided many specific recommendations and posed a number of major issues for decision.

I have discussed the report with the Steering Group, the Joint Chiefs of Staff, the Service Secretaries, and the Under Secretaries and selected Assistant Secretaries of Defense. Based on the report and those meetings, the Secretary and I have decided to make major changes both in the acquisition philosophy and the acquisition process itself. We are convinced that we have now a historic and unique opportunity to significantly improve the Defense acquisition system. We ask for your cooperation and assistance in carrying out these decisions.

The acquisition decisions are recorded in detail in the attachments to this memorandum. I would like to highlight here the major decisions and their implications for DOD in the following paragraphs.

DOD ACQUISITION MANAGEMENT PHILOSOPHY

The DOD management philosophy that I described in my 27 March 1981 PPBS decision memorandum also applies to the acquisition policy and process. Through controlled decentralization, subordinate line executives will be held accountable for the execution of policy decisions and programs as approved. The review of the acquisition process is a good example of participative management where the Services and other DOD staffs, working together, have jointly agreed on what should be done. All points of view were considered prior to decision. Now that decisions are made, the Secretary and I expect full support of DOD staffs and the Services in implementation.

I affirm the following acquisition management principles:

1. We must improve long-range planning to enhance acquisition program stability.

2. Both OSD and the Services must delegate more responsibility, authority and accountability for programs; in particular, the Service program manager should

have the responsibility, authority and resources adequate to execute efficiently the program for which he is responsible.

3. We must examine evolutionary alternatives which use a lower risk approach to technology than solutions at the frontier of technology.

4. We must achieve more economic rates of production.

5. We must realistically cost, budget, and fully fund in the FYDP and Extended Planning Annex, procurement, logistics and manpower for major acquisition programs.

6. Readiness and sustainability of deployed weapons are primary objectives and must be considered from the start of weapon system programs.

7. A strong industrial base is necessary for a strong defense. The proper arms-length relationships with industry should not be interpreted by DOD or industry as adversarial.

DOD-OMB AND CONGRESS

Many of the decisions announced in this memorandum can be implemented within DOD's legislative authority. Some decisions need to be coordinated with OMB. A number of recommendations will need Congressional action before final implementation can take place. In those latter cases, we will work closely with appropriate Congressional committees and their staffs to explain and justify our recommendations for changes to legislative requirements.

DOD-INDUSTRY RELATIONSHIP

While DOD should be tough in contract negotiations as part of the buyer-seller relationship, this does not mean that relationships between management and industry should necessarily be adversarial. Industry and government have a shared responsibility and must assume a new spirit of cooperation. A healthy, innovative, and competitive industrial capability is a primary national objective. I direct all top DOD management, in OSD, in JCS, and in the Services, to ensure this is understood at all levels.

ECONOMIES, EFFICIENCIES AND SAVINGS

A primary objective in streamlining the DOD acquisition process is reducing costs. All DOD staffs and Service managers should keep this uppermost in their minds. We all must be more aggressive and imaginative in looking for ways to save money throughout all phases of the acquisition process. I look to each of you to use your enhanced authority to bring about major savings and improved methods of operation.

DECISIONS TO IMPROVE ACQUISITION POLICY AND PROCESS

The Secretary and I are determined to reduce substantially cost overruns, deploy adequate quantities of needed systems that are operationally effective and ready, and do this in the shortest possible time. We are convinced that the actions directed in the attachment will significantly contribute to achieving these objectives. The major decisions for improvement can be summarized in four categories:

REDUCE ACQUISITION COST

Increase program stability by fully funding R&D and procurement at levels sufficient to ensure efficient cost, supportability and schedule performance, and minimizing changes to the approved program.

Implement multi-year procurement to improve production processes, increase economy-of-scale lot buying, decrease financial borrowing costs and reduce administrative burden in contracting.

Reduce administrative costs by simplifying procedures, seeking relief from costly legislative requirements and reducing the number of DOD regulations and directives.

Encourage capital investment to increase productivity in the defense industry by improved contractiug, more reasonable risk sharing, and increased incentives.

Promote Services use of economic production rates to reduce unit cost and decrease acquisition time.

Require services to budget to most likely cost to reduce cost overruns and provide stability.

SHORTEN ACQUISITION TIME

Implement Preplanned Product Improvement to reduce unit costs and decrease acquisition time.

Provide adequate "front end" funding for test hardware.

IMPROVE WEAPONS SUPPORT AND READINESS

Stress acquisition strategies that provide incentives to contractors to attain reliability and maintainability goals.

Establish readiness objectives early in development programs.

IMPROVE THE DSARC PROCESS

Move toward controlled decentralization of the acquisition process to the Services.

Reduce the data and briefings required by the Services and other DOD staffs.

Tie the acquisition process more closely to the PPBS.

IMPLEMENTATION OF THE DECISIONS

Implementation of the decisions announced iu this memorandum is as important as the decisions themselves. Many decisions, even those with DOD's authority, will take time to implement fully. A large number of DOD managers will have to take part on a worldwide basis.

I assign overall responsibility to the Under Secretary of Defense for Research, Engineering and Acquisition for monitoring and follow-up of all decisions in this report. I expect him to establish an appropriate implementing and reporting system. The first report will be submitted to me by the end of May and every month thereafter until further notice.

Both the Secretary and I appreciate the work you and your staff have provided during this assessment.

FRANK C. CARLUCCI.

Attachments.

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

RECOMMENDATIONS	Impact		Required action			Coordination					
	Near term (1 yr)	Long term	Internal only	OMB or Congress also	Responsible office	Services	USDRE	ASD (C)	ASD (MRA & L)	ASD (PA & E)	OGC
1. Management principles	X		X		USDRE	X					
2. Preplanned product improvement		X	X		USDRE	X					
3. Multiyear procurement		X		X	USDRE			X			X
4. Increase program stability		X	X		ASD (PA & E)	X	X	X			
5. Encourage capital investment to enhance productivity		X		X	USDRE	X		X			X
6. Budget to most likely costs	X		X		ASD (C)	X	X			X	
7. Economic production rates		X	X		USDRE			X		X	
8. Assure appropriate contract type		X	X		USDRE	X					
9. Improve support and readiness	X		X		ASD (MRA & L)	X	X				
10. Reduce the administrative cost and time to procure items		X		X	USDRE			X			X
11. Budget funds for technological risk		X	X		USDRE	X					
12. Front end funding for test hardware	X		X		USDRE	X			X		
13. Governmental programs		X		X	USDRE	X		X			X
14. Reduce the number of DOD directives	X		X		USDRE	X					
15. Funding flexibility		X		X	ASD(C)	X	X				X
16. Contractor incentives to improve reliability and support		X	X		USDRE	X			X		
17 Reduce DSARC briefing and data requirements	X		X		USDRE	X	X	X	X	X	
18. Budgeting for inflation		X		X	ASD(C)/ASD (PA & E)	X	X				
19. Forecasting business base at major defense plants	X		X		ASD (PA & E)	X					
20. Improve the source selection process	X		X		USDRE	X					
21. Standard operational and support systems		X	X		USDRE	X			X		
22. Provide more appropriate design to cost goals		X	X		USDRE	X		X			
23. Assure implementation	X			X	USDRE	X					
ISSUES FOR DECISION											
A. DSARC decision milestones	X				USDRE	X					
Alternative 1: Reduces current 4 SecDef decisions to 3			X								
Alternative 2: Reduces SecDef decisions to 2 (II and III)			X								
Alternative 3: Reduces SecDef decisions to 2 (I' and II')			X								
Alternative 4: Eliminates SecDef decisions; delegates to Service Secretaries				X							
B. Mission element needs statement	X				USDRE	X					
*Alternative 1: Service submits MENS with POM, SecDef approves MENS by accepting POM.			X								
Alternative 2: Eliminates MENS. Congressional Descriptive Summary would document milestone 0.				X							

See footnote at end of table.

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION—Continued

RECOMMENDATIONS	Impact		Required action			Coordination					
	Near term (1 yr)	Long term	Internal only	OMB or Congress also	Responsible office	Services	USDRE	ASD (C)	ASD (MRA & L)	ASD (PA & E)	OGC
C. DSARC membership	X		X		USDRE						
Alternative 1: Maintain status quo.											
*Alternative 2: Would include appropriate Service Secretary or Chief as full member.											
D. Defense acquisition executive	X		X		USDRE						
*Alternative 1: Would retain USDRE as DAE.											
Alternative 2: Would designate DepSecDef as DAE.											
E. DSARC review criteria	X		X		USDRE						
Alternative 1: Continues present system.											
* Alternative 2: Doubles dollar guidelines for major systems to $200,000,000 RDT & E. and $1,000,000,000 procurement in fiscal year 1980 dollars.											
F. DSARC—BS decision integration	X		X		USDRE	X		X			
Alternative 1: Continue present practice.											
* Alternative 2: Provide that DSARC reviewed programs be accompanied by assurance that sufficient resources are in FYDP and EPA to execute the recommended program. DSARC review would certify program ready for next stage.											
Alternative 3: Have DRB assume DSARC functions.											
G. Program manager control of support	X		X		ASD (MRA & L)	X	X				
Alternative 1: Would continue present system.											
Alternative 2: Services submit support resource requirements and readiness objectives with POM for systems entering early production.											
* Alternative 3: Same as 2 but gives program manager more influence over support resources, funding and execution.											
H. Improve reliability and support	X		X		USDRE	X			X		
* Alternative 1: Requires early decision on system support approach, objectives and resources, and incentives to balance risks in reliability and support.											
Alternative 2: Does not require upfront efforts to reduce risks. Shifts focus to fixing problems by subsequent re-design of hardware and incorporation of fixes.											

*Approved alternative.

RECOMMENDATION 1

MANAGEMENT PRINCIPLES

The Steering Group recommends that the Deputy Secretary of Defense reaffirm the following major acquisition management principles:

1. An improved statement of long-range Defense policy, strategy and resources will be provided to the Services in order to establish a framework for military objectives, goals, and mission planning to enhance program stability.

2. Responsibility, authority and accountability for programs should be at the lowest levels of the organization at which a total view of the program rests.

3. Service Program Managers should have the responsibility, authority, resources, and guidelines (goals and thresholds) adequate to efficiently execute the program. This should include the system specific acquisition strategy for attainment of the required operational and readiness capability, and appropriate flexibility to tailor the acquisition strategy to estimates of the development priorities and risks.

4. Evolutionary alternatives which use a lower risk approach to technology must be examined when new programs are proposed. Solutions at the frontiers of technology must provide an alternative which offers an evolutionary approach. Pre-planned Product Improvement (P^3I) should become an integral part of the Acquisition Strategy.

5. Achievement of economic rates of production is a fundamental goal of the acquisition process.

6. The Services should plan to realistically budget and fully fund in the FYDP and Extended Planning Annex (EPA the R. & D., procurement, logistics and manpower costs at the levels necessary to protect the acquisition schedule established at program approval points, and to achieve acceptable readiness levels.

7. Improved readiness is a primary objective of the acquisition process of comparable importance to reduced unit cost or reduced acquisition time. Resources to achieve readiness will receive the same emphasis as those required to achieve schedule or performance objectives. Include from the start of weapon system programs designed-in reliability, maintainability and support.

8. The proper "arms-length" buyer-seller relationship should not be interpreted by government or industry as adversarial. The DOD should be tough in contract negotiations. But weapons acquisition should be managed on a participating basis using industry as a full constructive team member. A strong industrial base is necessary for a strong defense.

Approved.

RECOMMENDATION 2

PREPLANNED PRODUCT IMPROVEMENT

A revolutionary system development approach which uses new and untried technology to meet a military threat can offer dramatic potential payoffs, but frequently ends up with large cost increases and schedule slippages.

An evolutionary approach offers an alternative which minimizes technological risk, and consciously inserts advanced technology through planned upgrades of those deployed subsystems which offer the greatest benefits. In this manner the lead time to field technological advances can be shortened while an aggressive scheduling of fielded performance improvements can be expected during the service life of the systems. This concept is called Preplanned Product Improvement (P^3I), and is commonly used in commercial industry.

Recommendation.—Most new and existing systems should be partitioned for performance growth through the application of sequential upgrades to key subsystems in order to reduce development risk, and take best advantage of technological advance.

Advantages.—Can reduce acquisition time, reduce development risk and cost, and enhance fielded performance through the deployment of upgrades. A revolutionary approach can always be adopted when the demands of the threat or other compelling military needs require such an approach.

Disadvantages.—The performance needed to meet a critical threat may dictate the use of distant technology, but the factors involved in such a decision are seldom incisive. Therefore, the choice between alternatives is not likely to be absolutely clear.

Action Required:

USDRE, working with the Services, develop within 30 days a plan for implementing Preplanned Product Improvement including definitions and criteria for application.

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USDRE request the Services to evaluate ongoing programs to determine potential for payoff from the application of preplanned product improvement, and to present results at the next DSARC.

USDRE assure Services have fixed the responsibility for review of opportunities for product improvement after any system reaches the field, and to develop a product improvement plan.

Approved.

Recommendation 3

MULTIYEAR PROCUREMENT

Recommendation.—Encourage extensive use of multiyear procurement based upon a case-by-case benefit/risk analysis.

Advantages.—Multiyear procurement could result in average dollar savings of 10 to 20 percent in unit procurement cost through improved economies and efficiencies in production processes, economy-of-scale lot buying, decreased financial borrowing costs, better utilization of industrial facilities, and a reduction in the administrative burden in the placement and administration of contracts. In addition, the stimulated investment in production equipment will result in lower-defect, higher quality products. The market stability will also enhance continuity of subcontractor supply lines and thereby decrease acquisition time. Surge capability will also be improved.

Disadvantages.—This funding technique fences in money and commits future Congresses. If used to excess, it would significantly reduce the flexibility of the Secretary of Defense to respond to unforeseen changes in the external threat. If a multiyear procurement was used to lock in a border line program, costs would be increased if the program was cancelled. In order to avoid these potential disadvantages, the following criteria are recommended as general guidelines to screen potential multiyear candidates: (1) significant benefit to the Government; (2) stability of requirements, configuration, and funding; and (3) degree of confidence in cost estimates and contractor capabilities.

Action Required:

(a) General Counsel must respond in writing to Congressman Daniel's bill HR 745.

(b) USDRE and ASD (Comptroller) should brief Appropriation and Armed Services Congressional Committees on recommended multiyear procurement procedures and concepts.

(c) USDRE should prepare special policy memorandum to the Military Departments for SecDef signature defining procedures and requesting identification of potential fiscal year 1983 multiyear procurement candidates.

(d) USDRE and ASD (Comptroller) should modify DOD Directive 7200.4 and the Defense Acquisition Regulation (DAR) and should interface with OMB to modify Directive A-11 as required.

(e) SecDef will present fiscal year 1983 President's Budget containing multiyear candidates.

Approved.

Recommendation 4

INCREASE PROGRAM STABILITY IN THE ACQUISITION PROCESS

Program instability is inherently costly in both time and money. The 47 major programs covered by the December 31, 1980, Selected Acquisition Reports (SARs) reflected total cost growth of 129 percent over the Milestone II estimates. Reasons for growth are economic or inflation (27 percent), quantity changes (26 percent), estimating changes (18 percent) schedule changes (15 percent), support changes (7 percent), engineering changes (5 percent), and other changes (2 percent). Forty-one (41) percent of all cost growth is due to quantity and schedule changes.

Of the 47 programs, 19 have had quantity increases, 20 quantity decreases, and 8 are unchanged. Schedule changes have resulted in reduced costs on 4 programs and increased costs on 41. The most common cause for these changes is financial. The budget levels and relative priorities of competing programs force tough decisions to terminate programs, reduce the number of weapons, stretch the development program, delay planned production or stretch the planned buy.

Recommendation.—SecDef, OSD and Services should fully fund the R&D and procurement of major systems at levels necessary to protect the acquisition schedule established at the time the program is baselined, currently Milestone II

Limit stretch-outs due to funding constraints (except when mandated by the Secretary or Congress). Establish procedures which will phase the scheduling of sequential milestones so that manpower "peaks and valleys" can be minimized consistent with balancing the risks. In general, only changes which are directed by changed requirements or development problems should be made.

Advantages.—Reduces costs and saves time by stabilizing schedules, quantities, and production rates. Will enhance the ability to plan force modernizations.

Disadvantages.—Budget flexibility will be reduced.

Action Required.—SecDef directs that during program and budget reviews by OSD (DRB) the Service Secretaries must explain and justify differences between program baselines established at Milestone II and the quantity and funding in the program or budget under review.

ASD (C) and ASD (PA&E) include above direction in fiscal year 1983 POM and Budget Guidance.

Approved.

Recommendation 5

ENCOURAGE CAPITAL INVESTMENT TO ENHANCE PRODUCTIVITY

Productivity in the defense sector of the U.S. economy has been lagging, in large part because of low levels of capital investment compared to U.S. manufacturing in general. Cash flow problems, tax policy, high interest rates, and how return on investment (ROI) tend to limit available investment capital. The industry views low profits and program instability as precluding investment in capital equipment. This situation has two major implications: a tendency to shift from defense to commercial business, and a decrease in funds available for facilitization.

Recommendation.—Encourage capital investment.

Advantages.—Will increase long-term investments which should lead to lower unit costs of weapons systems. Increase productivity.

Disadvantages.—Earlier Government disbursements. Some reduction in tax revenues.

Action Required.—USDRE should have the prime responsibility to implement the following actions working closely with General Counsel, Legislative Affairs, and the Service Material Commands.

(a) General Counsel should support legislative initiatives to permit more rapid capital equipment depreciation and to recognize replacement depreciation costs by amending or repealing Cost Accounting Standard (CAS) 409, "Depreciation of Tangible Assets."

(b) Structure contracts to permit companies to share in cost reductions resulting from productivity investments. Modify the Defense Acquisition Regulation (DAR) profit formula. Allow for award fees inversely proportional to maintainability costs.

(c) Increase use and frequency of milestone billings and advanced funding. Expedite paying cycle.

(d) Provide for negotiation of profit levels commensurate with risk and contractor investment; ensure that recent profit policy changes are implemented at all levels.

(e) Instruct the Services of the need to grant equitable Economic Price Adjustment (EPA) clauses in all appropriate procurements. Contract price adjustments made in accordance with EPA provisions should recognize the impact of inflation on profits. Ensure that these clauses are extended to subcontractors.

(f) Increase emphasis on Manufacturing Technology Programs.

(g) Provide a consistent policy which will promote innovation by giving contractors all the economic and commercial incentives of the patent system. Provide policies to protect proprietary rights and data.

(h) General Counsel should work to repeal the Vinson-Trammell Act.

Approved.

Recommendation 6

BUDGET TO MOST LIKELY COSTS

Intentionally low initial cost estimates are a prime contribution to apparent cost growth. Program costs are sometimes purposely understated either because DOD is forcing a program to fit available funding rather than the funding it takes to do the job, or because the contractors are purposely lowering their cost estimates in order to win a contract with hopes of recovering costs on follow-on

contracts. Either practice is referred to as "buying in." When the actual costs become apparent, DOD is severely criticized for cost overruns and there are insufficient funds available to procure at economic production rates. Also, the negotiated contract cost does not include future engineering changes or post-contract award negotiations which can drive costs higher.

Recommendation.—Require the Services to budget to most likely or expected costs, including predictable cost increases due to risk. Provide incentives for acquisition officers and industry to make and use realistic cost estimates.

Advantages.—Less cost growth. More realistic long-term defense acquisition budget. Increased program stability.

Disadvantages.—Difficulty in determining if a contractor is providing realistic estimates. Political difficulty in rejecting bids that project prices lower than costs. Difficult to budget funding greater than publicly-known contractual funding.

Action Required.—ASD (C) require the Services to budget to most likely or expected costs including predictable cost increases due to risk, instead of the contractually agreed-upon cost. USDRE and the Services provide incentives for acquisition officers and contractors to accurately project costs, including financial incentives and performance evaluation considerations to DOD personnel, and profit incentives to industry to reduce costs.

Approved.

Recommendation 7

ECONOMIC PRODUCTION RATES

The cost and time needed to put a weapon system into the field can be reduced by establishing and sustaining economic rates of production (i.e., the rate at which unit cost doesn't decrease significantly with further rate increases). Tight budgets and strong competition between programs have forced many programs to accept funding levels in the budget which will not sustain an economic rate of productioin.

A commitment to economic production rates cannot rule out sound arguments for lower (or higher) rates. For example, the Services may wish to stretch a program over a number of years in order to preserve a warm production base to permit rapid mobilization to meet a crisis or war. However, this requires stockpiling of materials, parts and subsystems to be effective.

Recommendation.—Services must use economic production rates in their program and budget requests, or explain and be prepared to defend the reason why a different rate was selected.

Advantages.—Save time and reduce cost of acquiring new systems.

Disadvantages.—Will buy out the total system faster (shorter production run for a given quantity) with peak funding competing with other systems, possible workload fluctuations in certain industries with occasional dead time and possible erosion of the industrial base. Can increase cost of correcting support problems.

Action Required.—Secretary of Defense establish policy requiring Services to fund programs at economic rates or justify any differences during budget reviews by OSD and the DRB. USDRE and ASD (C) include this requirement in the fiscal year 1983 program and budget guidance.

Approved.

Recommendation 8

ASSURE APPROPRIATE CONTRACT TYPE

Industry has repeatedly, over a long period, expressed serious concerns about the recurring use of the wrong type of contract. In particular, fixed price contracts are frequently employed for RDT&E and early production, which have legitimate cost uncertainties. This leads to a high risk situation for the contractors and to cost overruns for DOD. Current DOD policies and the regulations give guidance as to the use of appropriate contract types; however, this guidance is not being followed in the field.

Recommendation.—Give the Program Managers the responsibility to tailor contract types to balance program needs and cost savings with realistic assessment of an acceptable balance of contractor and government risk. Recommendation 1/Management Principle 3 states that the Program Managers be given the authority to determine the specific acquisition strategy.

Advantages.—Precludes a company from being forced to assume cost risk beyond their financial ability.

May increase competition if contractor risks are recognized.

Gives the Program Managers more flexibility to accommodate program needs.

Disadvantages.—Government assumes more cost risk.

Action Required.—USDRE establish an OSD, Service, Industry working group to develop an implementation plan to insure that appropriate contract types are used. USDRE and the Service Secretaries insure that Program Managers have the responsibility for determining the appropriate contract type. USDRE should insure that the regulations are clear on this point.

Approved.

Recommendation 9

Improve system support and readiness

As a result of recurring problems with weapons system support, the recent revision of acquisition policies includes a major emphasis on support issues, including reliability, maintenance, spares, test equipment, and maintenance manpower. These recent policies are generally sound, are not directly influenced by the major acquisition process options presently under consideration and can be undertaken under any option.

To be effective the policies require Secretary of Defense commitment. The need for this specific commitment results from the competition among the conflicting objectives of high performance, lower cost, shorter schedules, better reliability and maintenance, and support.

Recommendation.—Establish readiness objectives for each development, program to include estimates of the readiness level to be achieved at early fielding and at maturity. Implement acquisition policy establishing "designed-in" reliability and readiness capabilities. The implementation must emphasize the objectives of shortening the overall time to deliver equipment to the troops which meet mission and readiness needs; the need for improved estimates of the R&D and support resources required; and additionally, ask that some force element(s) be targeted for a major improvement in designed-in support capability to be less dependent on a support tail.

Advantages.—Clarifies that improvement in readiness is a major objective of the Administration and that implementation must take place.

Disadvantages.—Will require additional technical effort and resources early in acquisition programs.

Action Required.—MRA&L draft SecDef policy letter to be issued within thirty days, reaffirming weapons support policy and objectives, and tasking the Services to develop implementing guidelines, including procedures for addressing support early in acquisition programs.

Approved.

Recommendation 10

Reduce the administrative cost and time to procure items

In 1974, less stringent requirements were established for DOD Contract procedures associated with purchases under $10,000. The purpose was to reduce both the time and paperwork costs to a level commensurate with the value of the item being purchased. Over the years the tendency of a bureaucracy to take precautions has expanded the paperwork associated with a procurement, and inflation has reduced the purchasing power of the dollar until the $10,000 item of 1974 would cost almost twice that much to purchase today.

A similar inequity exists in the administrative procedures governing contract funding execution. Department of Defense and Service procedures place numerous administrative requirements on the obligation of funds. They provide unnecessarily cumbersome safeguards for the public interest, to a certain extent thereby, thwarting that interest. There is also a general tendency to apply the most burdensome procedures, even if administrative shortcuts are allowed. The DOD is motivating its contract and fund administrators to avoid the least possibility of criticism rather than to use economic procedures.

(a) *Recommendation.*—Raise the $10K limit for purchase order contract use to $25K to accommodate inflation and reduce unnecessary paperwork and review. Letter is enroute from Joint Logistics Commanders to DEPSECDEF recommending change. Proposal is currently in staffing at OMB for inclusion in the Uniform Procurement System (UPS) and as a legislative initiative.

Action Required.—DEPSECDEF recommend that OMB (OFPP) initiate change to 10 USC 2304.

(b) *Recommendation.*—Raise threshold for contractor costing data input from $100K to $500K to accommodate inflation and reflect current auditing procedures. (Paperwork load is such that only data for contracts over $500K is actually audited today.)

Action Required.—DEPSECDEF recommend that OMB (OFPP) initiate legislative change to USC 2306.

(c) *Recommendation.*—Raise threshold for Service Secretary review of Contract Determination and Findings (D & F) for RDT & E from $100,000 to $1 million. Current level was set in mid-1960s. Higher level would still cover 90+ percent of expenditures (dollars). Higher limit supported by JLC.

Action Required.—DepSecDef recommendation to OMB (OFPP) for approval; subsequent change to Defense Acquisition Regulations (DAR).

(d) *Recommendation.*—Encourage greater use of class (D&F's) which allows one D&F to cover multiple contracts. Reduces total volume of contracts which must be reviewed, thus speeding up processing time.

Action Required.—USDR&E prepare policy statement encouraging greater use of class D&Fs.

(e) *Recommendation.*—Raise reprogramming thresholds from $2M to $10M for RDT&E appropriations and from $5M to $25M for procurement. Thresholds were set 10 years ago with no inflation accommodation. Greatly reduces Service flexibility to answer program.

Action Required.—Renew SecDef/DepSecDef efforts to obtain Congressional Committee approval (HASC, SASC, HAC, SAC).

Advantages (all above recommendations): Provides immediate relief from unnecessary paperwork burden, Reduces administrative lead time, which will result in reductions in in-house and industry overhead cost. Supports a far more efficient Government cash flow management.

Disadvantages.—Less opportunities for legal reviews.

(f) *Recommendation.*—Eliminate the need for non-Secretarial level D&Fs for competitive negotiated contract awards.

Advantages.—Reduced paperwork and administrative lead times. In conjunction with recommendation C above, to increase D&F thresholds, the D&F requirement would be considerably reduced.

Disadvantages.—Many smaller procurement actions would not be reviewed above program office level.

Action Required.—SecDef submit recommended legislation to review public law.

(g) *Overall Action.*—USDR&E prepare implementation plan and required SecDef letters within 60 days. Tie cost thresholds to inflation.

Approved.

Recommendation 11

Incorporate the use of budgeted funds for technological risk

Material development and early production programs are subject to uncertainties. Program managers who explicitly request funds to address these uncertainties usually find these funds deleted either in the DOD PPBS process, by OMB, or by Congress. Then when such uncertainties occur, undesirable funding adjustments are required or the program must be delayed until the formal funding process can respond with additional dollars.

The Army has initiated, and Congress has accepted, a Total Risk Assessing Cost Estimate (TRACE) to explicitly address program uncertainties in the development of RDT&E budget estimates. The Army is studying the application of this concept to early production cost estimates. The other Services lack a similar concept to justify reserve funds for dealing with developmental uncertainties.

Recommendation.—Increase DOD efforts to quantify risk and expand the use of budgeted funds to deal with uncertainty. Encourage all Services to use such budgeting where appropriate.

Advantages.—Cost estimates will be more realistic over time. Programs will be more fully funded and overall programs will be more stable.

Disadvantages.—Can encourage a more costly treatment of problems that might be solved in other ways (self-fulfilling prophecy). Higher initial program estimates would result in fewer programs within a stated total obligation authority.

Action Required.—SecDef emphasize the requirement to evaluate, quantify and plan for risk. USDRE direct all Services to budget funds for risk. In particular, each Service should review the TRACE concept and either adopt it or propose an alternative for their use to USDRE within 60 days.

Approved.

Recommendation 12

PROVIDE ADEQUATE FRONT END FUNDING FOR TEST HARDWARE

Weapon system development programs often have too few test articles to allow parallel tests for performance, reliability, etc., and in order to shorten development time without substantially increasing risks. Procurement of too few test articles forces a sequential approach whereby the available test articles are dedicated exclusively to development testing. Consequently, operational and other testing cannot be accomplished concurrently (within acceptable levels of risk) to save time.

In addition to designing for the major performance objectives, increased emphasis should be placed on designing for reliability by providing adequate design margins, while giving full consideration to adequate testing, fault isolation and maintainability. Adequate test hardware should be provided in the program to permit early combined environmental tests of the subsystems and subsequent system tests, to allow iteration of the design using the test-fix test process to achieve early design maturity.

Recommendation.—Provide sufficient test hardware to meet the subsystem, system and software engineers' needs to properly engineer and test development of the end item hardware using parallel testing to reduce overall schedule time. The number of test articles must be defined and explained during preparation of Service programs and budgets.

Advantages.—Saves time in the total acquisition process by emphasizing reliability up front and eliminating lengthy and costly problem identification and correction effort; also allows realistic concurrent development and operational testing.

Disadvantages.—Requires increased front end funding.

Action Required.—USDRE ensure that the acquisition strategy identify plans for and funding required to acquire adequate subsystem and system test hardware to reduce overall schedule time and risks.

Approved.

Recommendation 13

GOVERNMENTAL LEGISLATION RELATED TO ACQUISITION

Over the past decade, the acquisition process has become overburdened with governmental legislation and requirements. Individually, these regulations have worthwhile objectives; collectively, they impose a costly and burdensome requirement on industry and the acquisition process.

Recommendation.—Seek DOD relief from the more burdensome requirements of governmental regulations.

Advantages.—Less cost to contractors in doing business with the Government. Reduce program costs. Simpler contracting procedures. Faster contract awards.

Disadvantages.—Reduced benefits which are considered important national goals. Request for relief will certainly spark debates with the various interested groups.

Action Required.—USDR&E establish joint OSD and Service team to weigh the impact of the various governmental requirements and regulations on the efficiency and effectiveness of the total DOD acquisition and contracting process. Industry and OMB should participate to the maximum extent possible. A report should be prepared for the DepSecDef within 45 days.

Approved.

Recommendation 14

REDUCE THE NUMBER OF DOD DIRECTIVES

The current acquisition directive refers to 114 (up from 15 in 1971 and 26 in 1977) related directives and instructions. The Services emulate these directives in implementation with their own implementing instructions. There is rarely a challenge to these well-intentioned directions, nor is there a cost-benefit check

performed. Program manager and industry initiatives are often stilted by over-regulation. With each new directive additional paperwork, manhours and other direct costs are expended in compliance. Congressional, GAO, industry, OSD, and OFPP studies have indicated that contractually imposed management systems and data requirements cost 8 cents out of every contract dollar. With defense contracting approaching $100 billion a year, it means that these management-imposed requirements cost approximately $8 billion per year. A 20 percent improvement would save $116 million per year.

Recommendation.—Reduce the number of directives. Require that the Defense Acquisition Executive be the sole issuer of DOD directives related to acquisition. This would not mean that DAE would draft all such documents, only that DAE would have final review and releasing authority.

Advantages.—Coordinates requirements and reduces the issuance of superfluous directives. Will reduce program costs to the extent that directives require reports, data, documentation.

Disadvantages.—Adds an additional layer to the process of issuing or revising a directive. Places the DAE in control of directives for areas of acquisition for which he may have little expertise.

Action Required.—USDRE establish a joint OSD, Service, Industry team to provide recommendations within 90 days to substantially reduce the number of directives, and the documentation required in contracts.

Approved.

Recommendation 15

FUNDING FLEXIBILITY

Program continunity requires that we budget for procurement funds more than a year in advance of the actual transition date of major acquistion programs from R&D to procurement. Since most development program schedules are success oriented, sometimes the procurement transition date arrives and the system is not ready to buy. Because procurement funds have been budgeted, there is considerable pressure to proceed with production rather than accept program delay. If the Secretary (and/or Military Departments) had the authority to transfer these procurement funds to R&D to correct deficiences without the prior approval of OMB and Congress, it could significantly decrease the time in resolving program problems. Section 733 of Public Law 96-527 (DOD Appropriation Act) provides a general authority for Transfers, not to exceed $750 million between DOD appropriations. Its use requires a determination by SecDef that such action is in the National Interest and must have prior approval by OMB. Our current reprogramming arrangements with the Congressional Oversight Committee provide that any such transfer is of "special interest of the Congress" and requires their prior approval, in effect, negating the independent use of transfer authority by the Department.

The proposal would require the support of the Oversight Committee and OMB. Ideally, such approval should be included in the general provisions of the Appropriations Act as a subsection of 734. We will have to work closely with Congress to insure that this authority would apply only to the movement of funds programmed for an individual weapon system, and would not be used to transfer funds between programs.

Recommendation.—Obtain legislative authority to transfer individual weapon system Procurement funds to RDT&E.

Advantages.—Provides DOD with more flexibility to resolve weapon system funding deficiencies.

Avoids program delays associated with OMB/Congressional review and approval of funding adjustments.

Maintains program stability by enabling program manager to resolve problems within total available acquistion funding of the program involved.

Disadvantages.—OMB/Congressional visibility occurs after the fact.

Could jeopardize current appropriation and authorization process.

Could jeopardize current reprogramming arrangements with Congress.

May be destabilizing.

Action Required.—ASD(C), working with the General Counsel, OMB and Congress establish procedures for DOD approval of the transfer of funds in a given fiscal year from Procurement to RDT&E for an individual weapon system when the Secretary of Defense determines that it is in the National Interest to do so.

Approved.

RECOMMENDATION 16

CONTRACTOR INCENTIVES TO IMPROVE RELIABILITY AND SUPPORT

Industry has said that even though there is recently more attention paid to "support" in DOD solicitations, there is a widespread belief that performance and schedule are DOD's principal objectives. There is a need for industry to apply more of their design talents to reducing reliability and support problems. Beyond this a need to improve the identification and specification of maintenance manpower constraints and for industry to include these constraints in the designs.

Recommendation.—Acquisition strategies should identify the approaches to incentivize contractor attainment of reliability and maintainability (R&M) goals and reduce maintenance manpower and skill levels. These should include the approach taken in the RFP evaluation, as well as specific awards, incentives and guarantees, such as specific rewards for improving reliability. The Services should develop greater expertise in support related contractor incentives through analysis of experience gained on DOD programs.

Improvements should be developed in the method of projecting critical maintenance manpower skill limitations and translating these into design constraints and objectives for inclusion in RFPs and specifications.

Advantages.—Improves reliability and support. Reduces maintenance manpower requirements.

Disadvantages.—Incentives other than competition require additional funds.

Action Required.—USDRE working with the Services, develop guidelines to include the approaches to incentivize contractors to improve support within 60 days, followed by a USDRE and Service evaluation of incentives within the next year.

USDRE develop with the Services, within one year, improved approaches to translate maintenance manpower skill projections into system design objectives.

RECOMMENDATION 17

DECREASE DSARC BRIEFING AND DATA REQUIREMENTS

During recent years there has been a growing tendency to centralize the decision process within the DOD. This practice has multiplied throughout the numerous levels of authority in each of the Services, and has complicated the review process. This practice has, in and of itself, lengthened the acquisition cycle; created cost increases due to delays in decisions; confused the authority, responsibility and accountability of the designated Services Managers; and has stifled innovation which could produce program improvements leading to cost savings. The principle of decentralization should be applied to acquisition management.

Recommendation.—Emphasize the requirement to achieve appropriate delegation of responsibility, authority and accountability to and within each Service for system acquisition to reduce the time and effort required for SDARC and Service major system reviews.

Advantages.—Reduced system cost and shorter acquisition cycles. More efficient reporting by and within the Services. More streamlined program management. More efficient DSARC and other program reviews. Potential elimination of layered management resulting in lean organizations.

Disadvantages.—Some risk of losing a thorough functional analysis of the system because of the elimination of more detailed reviews.

Action Required.—USDRE make explicit the changed character and the reduced number of briefings and data for the DSARC review.

Approved.

RECOMMENDATION 18

BUDGETING WEAPONS SYSTEMS FOR INFLATION

Historically, inflation predictions have been lesser than the actual inflation that come to pass. The situation has been most severe in major weapon programs that spend out slowly and extend into those years when inflation estimates have been poorest. The result is that unpredicted inflation has cut heavily into real program by as much as $6 or $7 billion a year. In addition to the serious underfunding of major weapon and other purchases, DOD is charged with poor management because of the amounts of cost growth in current dollars appearing in reports and in the process.

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Recommendation.—Review various methods and alternatives for budgeting more realistically for inflation.

Required Action.—Comptroller and PA&E develop in more detail the various alternatives addressing the inflation issue as related to planning and budgeting for major acquisition programs and provide a decision paper to the Deputy Secretary of Defense within 30 days; discuss draft options with OMB and appropriate Congressional staff.

Approved.

Recommendation 19

Forecasting of business base condition at major defense plants

The business base at key defense plants is not adequately considered in DOD program development. Cross-Service impacts and the effects of non-DOD work distorts business base projections and seriously increases overhead costs. This has caused large cost growth for certain weapons systems. Too little consideration is given to this factor in DOD planning and decisionmaking.

Recommendation.—The Services will increase the effort to coordinate programing information that affects other Service overhead costs at given defense plants. Program offices will provide program projections to plant representatives so that overall business projections can be made available to the Services for planning and budgeting.

Advantages.—Better cost estimates and lower cost to the government. Provides more realistic costs and stability.

Action Required.—Contract Administration functions will be directed to maintain a business base projection, and government offices will be directed to support this effort and utilize these data in planning and budgeting. The OSD Cost Analysis Improvement Group (CAIG) will maintain a data exchange for the Services to assist in improved forecasting.

Approved.

Recommendation 20

Improve the source selection process

Some DOD competitively-selected contractors have performed poorly. In some instances, source selection criteria do not sufficiently take into account past performance or plans for future phases of a program. Also, the credibility and realism of contractor cost proposals are not always challenged.

Recommendation.—Improve the source selection process to place added emphasis on past performance, schedule realism, facilitization plans and cost credibility. De-emphasize the importance of lowest proposed cost. Devote more attention to evaluating contractors' performance during and at the time of contract completion. Provide award fee contract structure to encourage good performance. This both provides an incentive for good performance, and a measure of contractor performance to be used in future source evaluations. Establish quality ratings where possible and ensure these past performance ratings are available for use by source selection personnel.

Advantages.—Eliminate poor performers, eliminate proposals that are unrealistically priced, thereby reducing the risk of buy-ins.

Disadvantages.—May limit competition. Will be difficult to implement and apply fairly.

Action Required.—USDRE modify the source selection directive, DODD 415.62, to emphasize the objectives stated above. USDRE establish a DOD system for recording, documenting and sharing contractor performance.

Approved.

Recommendation 21

Develop and use standard operational and support systems

New subsystems and support systems are developed that are peculiar to specific weapon systems, yet have many performance features in common with other systems. Use of standard, off-the-shelf subsystems and/or support systems for some of the long lead time items can reduce development time.

Recommendation.—Identify and develop standard subsystems and support systems or their technology (independent of weapon systems) to meet projected weapon system needs. Support a program of weapon support R&D to put diagnostic, repair, and logistic technology on the shelf.

Advantages.—Earlier deployment with lower risk. Enhanced supportability. Reduction in operating costs.

Disadvantages.—Standard systems or technology may not be best match for the weapon system needs. Requires increased funding to implement. Could be overemphasized.

Action Required.—USDRE working with the Services submits a proposed program for fiscal year 1982 and beyond within six months.

Approved.

Recommendation 22

PROVIDE MORE APPROPRIATE DESIGN TO COST GOALS

Design to Cost (DTC) fee awards are made as a result of paper analysis. There is little or no tie to actual costs in production. DTC incentive fees and awards are payable during and at the conclusion of Full-Scale Development. Award is based on the forecasted average cost for the production quantity.

Recommendation.—Provide appropriate incentives to industry by associating fee awards to actual costs achieved during the early production runs.

Advantages.—Ties award to "real" achievement. Makes DTC meaningful.

Disadvantages.—Changes in program (rates, quantify, inflation, etc.) complicate analysis of results. Longer time between DTC effort and award payment.

Action Required.—Insure program managers and contracting officers develop contract terms and procedures to provide for the payments of Design to Cost (DTC) awards and incentives based upon costs actually achieved during early production runs. Base payments on demonstration that initial costs are on track with DTC goal for total forecasted production.

Approved.

Recommendation 23

ASSURE IMPLEMENTATION OF ACQUISITION PROCESS DECISIONS

The acquisition process has been studied many times by many organizations. Most of the recommendations presented here have been made before. However, few of these recommendations have been implemented. Congress, GAO, OMB, OFPP, industry, and OSD have continuously criticized the Services for not following DODD 5000.1 and DODI 5000.2. A recent Navy acquisition study reviewed the implementation status of past acquisition process studies and found that of 50 recurrent recommendations, some progress is perceived to have occurred in 29 and almost no progress is perceived to have occurred in the remainder.

A difficulty with implementing recommendations regarding the acquisition process is the great number of players involved to make implementation succeed. This requires persistent, intensive, follow-up effort to make sure that the recommendations really to take hold. The most common reason for non-implementation is simply that relentless action on the part of top management is not taken to insure that recommendations are, indeed, implemented. OSD has, in the past, focused a great amount of management attention on policy development and resolution. However, OSD has not monitored implementation of the policies on a program basis.

Since potential decisions could lead to major changes to the process and even to DOD organizations and their roles, it will be difficult for the existing DOD organizations to execute changes without high level attention by the SecDef and DepSecDef. Elimination of the complexity inherent in the current process is masked unless the many different types of changes are considered in terms of the aggregate administrative and reporting load generated.

A fundamental determination which is required for each decision is whether implementation should reflect centralized control under OSD or decentralization to the Services. In selected areas a uniformity of action across Services may be desired.

Recommendation.—Ensure that a determined management translates approved recommendations into implementable direction and fixes responsibility so that management has visibility of the actions taken.

Advantages.—This plan will not succeed without a well planned, intensive, high visibility, relentless implementation phase. Without this effort, this report will degenerate into another study.

Disadvantages.—Implementation will require a priority and time commitment from all levels of management ranging from the SecDef to the Program Manager for a number of years.

Action Required.—(a) Assign overall responsibility to USDRE for monitoring and follow-up of all decisions made in this report.

(b) USDRE will assign a prime responsibility for action on every recommendation and decision in this report. In general, these assignments have been specified under the "Action Required" sections; however, in certain cases specific action responsibilities will be defined in the immediate future.

(c) USDRE should consider utilizing a working group containing OSD and Service representatives to assist in implementation.

(d) USDRE should consider utilizing a number of creative techniques to translate the intent of these recommendations to all levels. This could include formal training sessions, conferences, video taped training films, articles, and policy letters.

(e) Both the SecDef and the DepSecDef must maintain a personal interest in ensuring that the changes are implemented, that there is continuous action to improve the acquisition process, that periodic reviews take place, and that all Services and OSD staff be made aware of the SecDef priority interest on this subject.

Approved.

Major Issues for Decision

This section presents for decision the major issues identified in the Defense Systems Acquisition Review.

A. WHAT SHOULD BE THE SECDEF (DSARC) DECISION MILESTONES?

The current process provides four discrete SecDef decision points. All of the alternatives discussed below retain the current "milestone" process structure. However, all alternatives either de-emphasize or reduce the number of formal OSD level milestone reviews and SecDef decisions. Under some alternatives certain milestone reviews are delegated to the Service Secretaries. The Secretary of Defense decision authority and acquisition policy responsibilities are maintained and exercised through the PPBS process and/or by invoking explicit disapproval of proposed Service program acquisition decisions at any stage in the cycle. There are four alternatives shown schematically on page.

Alternative One.—(Page D–11) reduces the current four discrete SecDef decision milestones to three (with flexibility for only two) by altering Milestone Zero.

Milestone Zero SecDef review and decision is accomplished through the annual Planning, Programming and Budgeting System (PPBS).

Although Milestone I is retained, a SecDef decision would generally be necessary only when a program requires a significant prototype (Advanced Development) phase. When held, Milestone I documentation would be reduced.

Milestone II and III reviews would continue to be conducted by the DSARC with final approval action by the SecDef. Any pre-or post-Milestone III reviews deemed necessary would be held at the Service level except under unusual circumstances.

Pro:

Reduced administrative burden.

Increase flexibility.

Initial development program reviews and decisions are speeded.

Con:

May be perceived as a lessening of SecDef control.

Alternative Two.—(Page D–16) reduces the number of formal SecDef DSARC reviews to Milestones II and III.

Milestone 0 would be reviewed by OSD during PPBS as in Alternative One above.

Milestone I would be delegated to the Service Secretaries SecDef authority and oversight is maintained through notification of Service decisions with veto/disapproval authority if necessary.

Milestones II and III receive a full DSARC review and DSARC approval.

Pro:

Further delegation of program responsibility and reduction in administrative burden.

Front-end process is speeded as in Alternative One.

Con:

Further reduction in SecDef control over acquisition of major programs at front-end; may restrict SecDef ability to redirect due to program momentum.

May not be considered proper implementation of A–109 with regard to Milestone I (A–109 requires SecDef to retain decision authority at the four Milestone Decisions).

Alternative Three.—(Page D–19) reduces the SecDef decision milestones to two, but ensures full SecDef involvement in major program initiation, and improved program definition for program go-ahead. The first decision point, "Requirements Validation: (equivalent to combination of Zero and One), serves as a full DSARC/SecDef review and approval of major program initiation including threat, weapons concept, risk and schedule, readiness, and affordability goals. At this point a specific "not-to-exceed" dollar threshold is established which sets the funding to carry the program through Concept Validation and early Full-Scale Development activity up to the second decision point, "Full-Scale Development and Production." The goals to be achieved by, and the timing of the second SecDef decision point are defined at the first decision point.

The Program Go-Ahead, second SecDef decision point, occurs somewhat later than Milestone II in a "normal" program schedule, and it is selected to coincide with Preliminary Design Review. SecDef retains source veto/disapproval of a Service proposed action and program plans which shall include Full-Scale Development and Production, the program plan for Test and Evaluation, Support and Readiness, and the total acquisition strategy.

The production program review is delegated to the Service Secretary if there are no major changes to the program approved at the second decision point by the SecDef.

Pro:

The administrative burden is reduced by fewer OSD level reviews.

The review levels are linked more closely to major expenditure increases.

Program commitment is delayed until program technical, performance and cost factors are more accurately determined.

Provides more efficient transition between development and production.

Con:

Same Cons as above; in addition the divergence from A–109 language is more acute.

No separate SecDef production decision required.

Alternative Four.—(Page D–24) eliminates all SecDef decision milestones and delegates total program review responsibility to the Service Secretaries. The DSARC could be invoked at SecDef discretion but generally the SecDef would exercise control and decision authority on a by-exception veto/disapproval basis. Milestone Zero would be conducted through the PPBS process as described earlier.

Pro:

This alternative goes the furtherest toward decentralization and reduction in administrative burden.

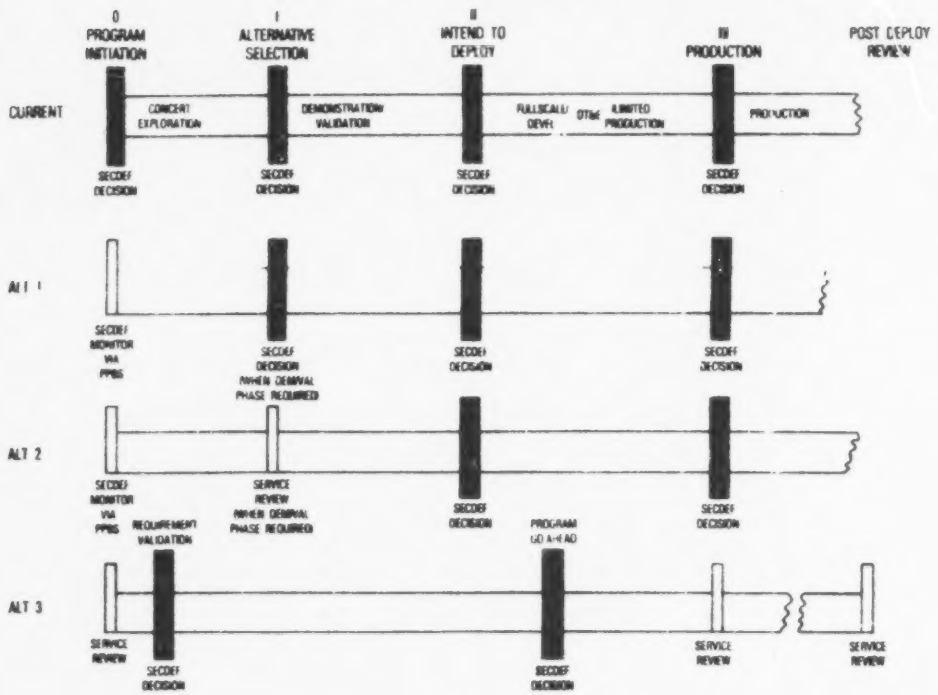
Con:

SecDef direct control of major acquisitions is substantially reduced. Perceived violation of the intent of A–109 as regards agency head responsibility.

Action.—USDRE revise DOD Directives 5000.½ appropriate to alternative selected.

Decision. Alternative 3.

ACQUISITION PROCESS ALTERNATIVES



B: SHOULD MENS BE ELIMINATED/REVISED?

Problem.—The Mission Element Need Statement (MENS) is an internal DOD document used to support the SecDef decision at Milestone 0. The MENS is required by DOD implementation of OMB Circular A–109 (1976) requirements to state needs in terms of mission and that SecDef should certify the need. The MENS was to be 5 pages or less. In practice staffing has increased and detailed justification information often requested by OSD has contributed directly to perceptions of growth in the "front end" of the acquisition cycle. There are 30 MENS currently approved.

Alternative One.—Would require submission of the MENS (shortened or as currently required) no later than with the Service POM thus linking the acquisition and PPBS process. SecDef approval of MENS would be by accepting POM in the absence of specific disapproval.

Pro:

Consistent with reduced SecDef review options.

Better integration of acquisition and PPBS processes as "new starts" would be reviewed in the context of the full Service/DOD budget formulation process.

SecDef decision authority retained, but exercised by exception in the budget process.

Con:

Some reduction in SecDef visibility and influence over preliminary program plans.

Alternative Two.—Would eliminate MENS document entirely; Congressional Descriptive Summary (and other POM documentation already required) would document Milestone O.

Pro:

Reduced paperwork, simplified program documentation.

Con:

MENS has been given considerable visibility in OFPP, OMB, and GAO, could be viewed as circumvention of A–109 though MENS not specifically required by A–109.

Action Required.—USDRE revise DOD Directive 5000.1/DOD Instruction 5000.2 appropriate for alternative selected.

Decision. Alternative 1.

C. SHOULD DSARC MEMBERSHIP BE REVISED?

Problem.—Service Secretaries have statutory responsibility for the execution of contractual and financial responsibilities for their departments, yet they are not voting members of the DSARC. Service Chiefs also have no vote although they will be responsibile for developing and operating the systems under consideration.

Alternative One.—Would maintain current membership. (USDRE, Chairman; USDP; ASD (C); ASD (MRA&L); ASD (PA&E); Chairman, JCS; plus others in special cases).

Pro:

Retains DSARC as a SecDef staff advisory council.

Con:

Could place the DSARC in a position of recommending a position that is contradictory to that of the Service line executive responsible to the SecDef without explicitly reflecting the Service position.

Alternative Two.—Would include the appropriate Service Secretary or Service Chief as full members of DSARC.

Pro:

Provide SecDef with a broader advisory council.

Reduces adversary nature of current procedure.

Con:

Reduce the independence of the DSARC as OSD advisor to SecDef.

Increases the size of the DSARC.

Action Required.—USDRE revision of DOD Instruction 5000.2 required.

Decision. Alternative 2.

D. WHO SHOULD BE THE DEFENSE ACQUISITION EXECUTIVE (DAE)?

Problem.—Current policy requires that a DAE be designated by the SecDef to be the principal advisor and staff assistant for the acquisition of defense systems and equipment. The USDRE is designated the DAE. However, the scope of the function encompasses procurement of material to support and sustain the force. There is continuing competition between modernization readiness, maintenance of forces and sustainability. The USDRE has primary staff responsibility for force modernization efforts of DOD.

Alternative One.—Would retain USDRE as the DAE.

Pro:

The USDRE is clearly the OSD executive with the greatest technical knowledge and systems development expertise.

Con:

Primary USDRE responsibility is developing weapon systems as opposed to operating, maintaining, or supporting the military force. The effort rationalize and fund competing programs suffers because USDRE could be an R&D proponent himself.

Alternative Two.—Would designate DepSecDef as DAE.

Pro:

Improve balance between modernizing and operating the force and a more coherent defense program could result from having DepSecDef chair both the DRB and the DSARC.

Con:

Increases the level of DepSecDef involvement in the acquistion process.[4] USDRE is the OSD technical and system development expert.

Decision. Alternative 1.

E. WHAT SHOULD BE THE CRITERION FOR SYSTEMS REVIEWED BY DSARC?

Problem.—Currently, there are over 50 major programs designated for DSARC review. Although dollar thresholds (currently $100M RDT&E or $500M pro-

curement in FY 1980 $) are "guidelines," they are generally the rule of thumb used to select major programs. Major program designation is derived by subjective judgment based upon joint Service participation, estimated funding, manpower and support requirements, risk, politics, and other Secretary of Defense interests.

Alternative One.—Would continue present system.

Pro:

The current system allows flexibility in designation, and does not force uncontentious programs to become major strictly because of large investment.

Con:

The largely subjective criteria causes uncertainty, and may be susceptible to an arbitrary designation.

Alternative Two.—Increases dollar guidelines for major system designation to $200M RD&E and $1B procurement in fiscal year 1980 $.

Pro:

The number of Service DSARCs and DSARC would be reduced approximately 25 percent while still insuring review of the most expensive major systems.

Uncertainty and the opportunity for arbitrary, unnecessary designation are reduced.

Con:

Reduces number of major systems of significant investment not reviewed at Secretary of Defense level.

Action Required.—USDRE revise DOD Directive 5000.1/DOD Instruction 5000.2 if Alternative Two is adopted.

Decision. Alternative 2.

F. HOW SHOULD THE DSARC/PPBS DECISION BE INTEGRATED?

Problem.—It has been the perception that a DSARC endorsement and subsequent SecDef approval commits the SecDef/Service to fund the program as approved. This has led to confusion as to program status and stability. The DSARC process reviews single programs at significant milestones to determine readiness to proceed to the next phase. It is not feasible in that context to assess the financing of a major program vis a vis other Defense requirements. In contrast, the PPBS addresses all programs within a resource allocation framework without an in-depth review of technical issues and program structure. This "disconnect," the lack of explicit resource commitment (including support and manpower) resulting from a successful DSARC review and subsequent SecDef approval, is frequently cited as a flaw in the acquisition process.

Alternative One.—Continues present practice.

Pro:

Allows funding decisions during POM/budget development.

Con:

Fosters program instabilities when DSARC program is not supported in PPBS cycle.

May void contract with industry.

Alternative Two.—Resolves the interface problems by providing that programs reviewed by the DSARC will be accompanied by assurance that sufficient agreed to resources are in the FYDP and EPA or can be programmed to execute the program as recommended. DSARC review would certify the program ready to proceed to the next acquisition stage. Affordability in the aggregate would be a function of the PPBS process.

Pro:

This would lead to DSARC endorsement of fiscally executable programs and fosters program stability through resource commitment.

Con:

Funding constraints may be set without regard to technical issues.

Alternative Three.—Has the DRB assume the functions of the DSARC. This also makes DepSecDef the Acquisition Executive.

Pro:

Decisions made by single body; no need to revisit in another forum.

Forges a closer linkage between the acquisition process and the PPBS.

Con:

Current DRP membership not optimal for technical program reviews.

Action Required.—Alternative 2—DAE enforce current DOD Directive 5000.1 affordability policy and USDRE revise 5000.1 to strengthen policy and eliminate confusion.

Alternative 3.—USDRE revise DOD Directive 5000.1/DOD Instruction 5000.2 to reflect changes in role and membership of DRB.

Decision. Alternative 2.

G. PROGRAM MANAGER CONTROL OVER LOGISTICS AND SUPPORT RESOURCES

Problem.—Three programming and budgeting problems are disincentives for program managers to provide system support and readiness.

1. Support program and budget requirements are based on experience related measures (unrelated to readiness) instead of a system's support requirements and readiness factors.

2. Budget review by appropriation categories. The fielding of a weapons system involves several appropriations. R&D, procurement, military construction, operation and maintenance and military personnel. Normally budget decisions in these accounts occur without visibility of the impact on individual system's support or readiness.

3. Budget execution. Some weapon support funds (spares, training, depot) are controlled by Service activities not responsible to the program manager. Sometimes priorities do not match the program manager's and funds are diverted to fund other requirements.

The Program Manager may not know of or participate in PPBS decisions which impact on his system's support. Once decisions are made on his system's support, they may be altered by another activity during budget execution. This is particularly critical early in FSED as well as during the transition to production when large initial support resources are spent. At any given time, there would be an estimated 15–20 weapons total involved in transition. Procurement of spares with contracts separate form the system production contract increases spares costs.

Options.—Alternatives 2 and 3 below would apply to selected spares weapon systems, those nearing production or in early production (15–20 systems). A two year trial is recommended for the selected alternative.

Alternative One.—Would continue present management system (use traditional experience related measures to review system support program and budget requirements; review budget by appropriation categories.

Pro:

No cost of change.

Con:

Disincentives for program manager to provide system support readiness remain. Budget review and budget review and budget execution problems are not addressed.

Little program manager input to support budget execution.

Alternative Two.—Would have Services submit with the POM support resource requirements and readiness objectives, by weapon system, for systems entering/or in early production. Direct OSD to have a single review of support associated with individual systems.

Pro:

Gives more PPBS visibility of the combined effects of major support decisions on readiness objectives.

Removes PPBS disincentives by reducing independent budget/PPBS decisions without visibility of effect on program as a whole.

Would move in the direction of a more mission oriented budget decision process.

Con:

Some extra work for the reviewers.

Alternative Three.—Is the same as two but would additionally develop procedures to give the PM more control of support resources, funding and execution. Services would develop implementing approaches to deal with the problems identified on this issue. The basic option should give the Program Manager a voice in support resource allocation and budget execution process through increased and centralized resource visibility and coordination by the PM on changes to his plans.

Pro:

Giving the Program Manager a voice (or coordination) in major support resource decisions for his program would improve responsibility.

Con:

A moderate step requires procedural changes and may or may not be effective. More direct control of many resources would unbalance the overall use of logistic resources by the Service.

Action Required.—ASD (MRA&L) letter to Services stating objectives to give more incentives to PM. ASD (MRA&L) would work with the Services to define and evaluate implementing options. Initial letter can be prepared within 30 days.

Decision. Alternative 3.

H. IMPROVING RELIABILITY AND SUPPORT FOR SHORTENED ACQUISITION CYCLE

Problem.—In response to serious readiness and reliability problems in many of the systems we now operate, there have been increases in Service and OSD efforts to define reliability and support objectives and to demonstrate their accomplishment prior to major production commitment. Recent acquisition policies include this increased emphasis.

The new focus on shortening the development process is potentially in conflict with initiatives to improve reliability and support. Whereas the fastest acquisition approach involves initiating production prior to test of development models, the highest confidence of achieving reliability and other support goals in fielded hardware involves iterative design and testing before high rate production. A balance must be struck on each program. Many of the serious problems in current systems result from not striking the correct balance.

For those systems which are run on a fast track, there are requirements for additional early funding to design in reliability and support characteristics including the need to pay this price in parallel or competing developments. Additional in-house talent must be brought to bear, and industry incentives need to be applied to avoid previously experienced support problems.

Because of the relative priority of reliability and support efforts compared to performance objectives, and the current shortage of in-house talent to address these problems, specific top management attention, priority and stress on support resources is needed.

Alternative One.—Modifies the current acquisition procedures to require a specific early decision (circa Milestone 1 on many programs) on the approach, additional resources and incentives which will be used to balance the risks in the reliability and support area on each program. The vehicle for decision can be an acquisition strategy prepared by the Program Manager. This should include an option which goes as far as possible in extra efforts (design, parallel testing, contractual) to increase the likelihood of achievement of support objectives on concurrent programs.

Pro:

Early decision on degree of concurrency sets in motion long lead steps to reduce support risks.

Results in conscious decision to balance all the objectives in the light of Service and DOD priorities.

Gets additional early resource needs considered. Provides clear support objectives to PM.

Con:

Will require more up-front funds. Will be viewed by some as addressing support too early.

Additional responsibility for PM (but the clear decisions may be helpful).

Alternative Two.—Shifts more of the focus to fixing reliability and support problems experienced in fielding the system by subsequent redesign of production hardware and incorporation of fixes. Rely more on interim contractor support while problems are being fixed.

Pro:

Easier to do.

Leaves program manager freer to make the trade-offs without Service involvement.

Con:

Requires more funds to fix later. Historically difficult to get funds for major fixes. Less likelihood of avoiding support problems.

Congress will criticize the early fielding problems.

Action Required.—(If Alternative One is selected): USDRE issue guidance adding early assessment of support options to the current procedures. This could be part of a decision on overall acquisition strategy. Additionally request the Services to revise and develop support related planning guidelines.

Decision. Alternative 1.

Mr. CARLUCCI. Let me ask Dr. DeLauer if he wishes to add anything?

Dr. DELAUER. Mr. Chairman, besides meeting them as a group, we have had quite a few of them come in and sit down and spend some time with me and my staff.

Commenting explicitly on how some of the initiatives we have undertaken affect their particular segment of the process, all of them are not the same. Shipbuilding is different from the aircraft industry, which is different from the electronic industry.

We feel that is the best way for us to get our message across to them, particularly executive officers or executive vice presidents who operate in a particular sector of their company and have a lot of capability to be able to control costs if they are made aware of the fact that we do have a problem.

We are continuing that dialog on a daily basis and we will do it until we get their attention.

Chairman TOWER. Whether it is caused by inflation or not, the cost and program growth are estimated at some $47 billion, identified in major programs between December 1979, and December 1980.

Without trying to analyze each system, what is the prognosis for cost and program growth among these major systems? Good or bad, give us the prognosis.

Mr. CARLUCCI. First of all, Mr. Chairman, in putting together our 32 initiatives we did review these 47 major programs covered by the December 31, 1980, SAR. We came up with the following breakdown: economic or inflation reasons, 27 percent: quantity changes, 26 percent; estimating changes, 18 percent; scheduling changes, 15 percent; support changes, 7 percent; engineering changes, 5 percent; and other changes, 2 percent.

So, I would note that 41 percent of all cost growth is due to quantity and scheduling changes. If you add inflation to that, you are up near 70 percent due to these three factors.

Our program that I described briefly is directed at reducing quantity and scheduling changes. It is also directed at providing better cost estimates. We think that if we have these essential elements, adequate funding at the outset, and stability through the process, that is, we don't go up and down either in the budget or look for new changes to introduce to our programs except when they are absolutely essential, we can be successful in getting the cost relation down to a reasonable level.

We cannot, of course, control the inflation figure but we do think we can control the quantity, the scheduling changes, design changes, and estimating changes, a lot better than we have.

Chairman TOWER. Mr. Secretary, what have you done in the way of looking for low-priority programs or redundant programs or perhaps competing programs that could be eliminated or canceled to effect some savings?

Mr. CARLUCCI. Mr. Chairman, even though we put together the 1982 budget amendments in a short timeframe, we did review programs and we reduced or eliminated some 51 defense programs, 22 in the Army, 18 in the Navy, 11 in the Air Force, as well as the defense share of the National Oceanographic Satellite System. Of these 52 programs, 16 were outright cancellations of development programs with savings of $9 million in fiscal year 1981, $200 million in fiscal 1982, and $1.5 billion in the 1983 to 1986 timeframe.

I will be pleased to submit for the record a list of the programs that we have reduced or phased out.

[The information follows:]

Savings From the January Budget

Following are calculations of savings from the January Defense budget:

[By fiscal years, dollar amounts in millions]

	Budget authority	
	1981	1982
Category I:		
Efficiencies:		
Personnel savings and other administrative measures	$100	$100
Reduce purchases of marginal equipment	107	
Reduce administrative travel	13	20
Reduce reliance on consultants	50	100
Contracting practices reform		70
Subtotal	270	290
Productivity enhancing investment		100
Reduce marginal programs:		
Excess National Guard items		25
Reduce oversea station allowance and subsistance	50	89
Miscellaneous Army O. & M. savings		184
Special training		5
Excess Army Reserve items		8
Army technology base program		29
IMAAWS		29
Fire and Forget Hellfire		28
8-in ARP		13
Army antistandoff jammer		4
Corps support weapons system		8
Unexecutable Army vehicle buys		58
National oceanic satellite system	9	46
Seafire		18
Tactical electronic warfare deception systems		9
Human effectiveness (Navy R.D.T. & E.)		3
Manpower effectiveness		5
Navy OSHA		7
Navy weaponizing (prototype)		2
Antiship torpedo defense		2
Super Torch IR countermeasures		1
Over-the-horizon targeting		3
Special test systems		81
Stratified charge rotary combustion engine		10
VCX		33
Cargo aircraft minelaying		6
SSN integrated communications		4
Aegis (CSED)		13
SSN integrated communications		4
Aegis (CSED)		13
Navy standoff jammer suppression		10
Follow-on submarine development		13
Additional Air Force consultants		20
Air Force cost-of-living allowance	13	22
Air Force management headquarters		20
Air Force OSHA		23
Laser acquisition device		7
High-mobility vehicle		3
C^3 advance development		5
Titan II C^3		13
CRAF		37
B–52 electromagnetic pulse mod		83
Firebolt		4
Subtotal	72	*981
Category II: More efficient acquisition planning	197	484
Category III:		
Civilian pay cap (4.8 percent)		1,625
Retired pay COLA	68	380
Subtotal	68	2,005
Total savings	607	3,860

See footnote at end of table.

[By fiscal years, dollar amounts in millions]

	Budget authority	
	1981	1982
Further detail on savings due to more efficient acquisition planning is as follows:		
Army:		
Patriot		$52
Hellfire		35
XM-1	$144	
AH-64		58
Divad		12
Navy:		
A-6E		33
EA-6B		16
CH-53E		9
F-14		5
P-3C		24
Tomahawk		10
F-18	53	24
Captor		13
FFG-7		69
SSN-688		24
CG-47		54
Air Force:		
F-16		36
TR-1		10
Total	197	484

*Does not add due to rounding.

Mr. CARLUCCI. When we come to 1983, we are going to have to be even tougher, in my judgment, because, as the committee is aware, the initiatives that we undertook in 1982 do have outyear implications. We are now in the midst of the 1983 budget process. The Defense Resources Board will be meeting in late August, engaging in intensive review of programs, and we do intend to be tough.

I have scheduled a separate session just to deal with the question of cuts.

In the past, Mr. Chairman, there has been somewhat of a tradeoff between program cuts, program eliminations, and the so-called stretchout. There has been a tendency when faced with a budget crunch to cut across the board. This has resulted in reduced funding for such items as readiness, spare parts, testing, and that, in turn, has contributed to the cost escalation that you spoke of.

My preference will be to eliminate programs rather than cut back on the funding for programs in the developmental and procurement stages. This will require a lot of self-control on our part and it will require the full cooperation of the Congress.

Chairman TOWER. Mr. Secretary, have you looked into the problem to the extent of which Government regulations might impact adversely on defense costs? I think of such things as environmental protection regulations, occupational safety and health, any number of other regulatory burdens that are imposed on industry, some of which may or may not be unreasonable. Davis-Bacon, too?

Mr. CARLUCCI. That, too, is one of the 32 initiatives. It is initiative No. 13 in the package which I will submit for the record.

I gave instructions to Dr. DeLauer's office to review a range of programs, many of which have very worthy goals. These programs involve the labor area such as Davis-Bacon, equal employment, and the like. Cumulatively, those programs have forced the contractors to invest money. In the consultation process that I spoke

of this was the principal complaint of the contractors. They complained about our regulations. We have some 115 regulations in the major systems area and we are in the process of simplifying and reducing those.

They complained about the burden of social programs which, in turn, push up their costs.

Let me ask Dr. DeLauer to give you a status report on where we stand on that.

Dr. DeLauer. We are currently reviewing two groups of them. There are about 60 programs that impact on us and defense contractors. We are culling out for consideration of those we believe can be relaxed. It is not an easy process. Many of them are mandated by statute. We may have to come back with a request for some legislative relief. Those are in the process of being generated.

In addition to that, there is in my estimation about $8 billion in the procurement account that is a consequence of greater than 200 Department of Defense regulations on the contractor. We are reviewing those presently and we hope to relieve the industry of many of them.

There are some 62 or 63 defense acquisition regulations that flow through the prime to the vendors. We are going to see why these are all necessary. Many of these have grown over the years, added one at a time. This creates an expensive administrative expense for defense contractors. Once we decide which ones are not needed, an immediate effect on the process should result with some cost savings across the spectrum of defense acquisition.

Chairman Tower. Thank you.

I think my time has expired. Senator Stennis?

Senator Stennis. Thank you, Mr. Chairman.

I have no questions right now.

Chairman Tower. Senator Warner?

Senator Warner. Mr. Secretary, I have always viewed the Department of Defense as sort of a continuity, at least part of the many Federal departments and agencies. To what extent did you consult with your predecessors in bringing about these 31 points?

Mr. Carlucci. Senator Warner, I consulted with my immediate predecessor, Graham Claytor, for whom I have a great deal of respect. I consulted with several other predecessors. We also consulted with a range of people who had been involved in the defense contracting business. So, I would say we had a fairly wide spectrum of people that we talked to.

Senator Warner. In other words, this reflects a concensus of those persons whom you respect as having knowledge that could bear on this issue?

Mr. Carlucci. It represents an approximate consensus. You can never get a full consensus on anything that is as controversial as this, but I think it is fair to say that it does reflect a general consensus. People like Jack Gansler and Admiral Slade have already testified before another committee of the Congress in a supportive sense.

Those people who have had some experience in this area do think that we are on the right track.

Senator Warner. What procedure do you have for monitoring compliance?

Mr. CARLUCCI. Dr. DeLauer has been designated as the acquisition official. He makes periodic reports to me on the implementation of the program.

In addition, the Secretary and I have an objective, more or less a management objective program, in which we review the service objectives and the OSD objectives periodically. We have required all of the OSD offices, and appropriate offices in the service, to include acquisition reform in their objectives. So, once a week we go through the acquisition reform with either a service secretary or an assistant secretary in OSD and we track their progress.

Senator WARNER. Does part of that procedure provide for your informing Congress as to the compliance?

Mr. CARLUCCI. We do not have that as an integral part of the procedure, but I would be very happy to submit periodic reports to the Congress on implementation, if this committee so desires.

Senator WARNER. I would defer to the chairman, but I think that is advantageous and I hope the chairman will consider that.

Thank you very much.

Mr. CARLUCCI. We already have a June 30 report which could be made available to you, if you desire.

[The information follows:]

END JUNE REPORT ON ACTIONS TO IMPROVE THE ACQUISITION PROCESS

Summary.—The end of month status reports on each of the 31 actions are available in the office of the Deputy Under Secretary of Defense (AP). Briefs on our June 1981 activities are as follows:

POM REVIEW

Our annual POM and Budget review cycles are appropriate vehicles for implementing the following Carlucci initiatives:

No. 1, Management Principles.—These are enduring policies which require continuing surveillance.

No. 3, Multiyear Contracting.—There are various approaches to budgeting for multiyear contracts which can be addressed in the POM. We have raised an issue on this for POM 83.

No 4, Program Stability.—The essence of this recommendation is that programs should be fully funded (and consistent with DSARC decisions) in the POM/budget cycle and we have reviewed this year's POM with this in mind and raised issues as appropriate.

No. 6, Budget to Most Likely Cost.—Our comptroller staff is preparing budget guidance for developing most likely cost estimates. This can be an integral part of our PPBS process.

No. 7, Economical Production Rates.—We have developed models which allow us to compute changes in unit cost with changes in production rate. These have been briefed on the Services on several occasions. We have used them to identify POM issues and provide costs of alternative rates. We have a multiprogram issue being written now on POM 83.

No. 25, MENS in POM.—An issue has been written identifying the major system new starts by Service. Letters to the Services from USDR&E have been written requesting appropriate substantiation.

No. 29, DSARC/PPBS Integration.—This will be a continuing effort for each DSARC and PPBS cycle. We have identified issues for POM 83 and will identify affordability issues as programs come in for DSARC review.

Summary.—Numbers 1, 4, and 6 require continuing surveillance. Numbers 7, 25, and 29 are essentially implemented, but also require continuing action. No. 3 is in progress.

ACQUISITION PROCESS/DIRECTIVES

A number of the Carlucci initiatives deal with the acquisition process itself, and complete implementation requires an update to certain key directives.

No. 2, Pre-Planned Product Improvement.—A plan was prepared and forwarded to the Services by Mr. Carlucci on 6 July 1981. Service action items will be monitored. Part of the plan included draft language for DoDD 5000.1 and DoDI 5000.2, which will be included in an update.

No. 12, Front End Funding for Test Hardware.—OSD (Test and Evaluation) to review programs during DSARC milestone reviews for adequate test hardware. D(DT & E) has provided AM(MSA) with draft language for 5000.1/.2 update. We will include an update to DoDD 5000.1/DoDI 5000.2.

No. 14, Reduce Number of Directives.—A DoD (Military Services/Defense Agencies) group has been formed. The complex, time intensive study of which to cancel, revise or retain has begun.

No. 17, Decrease DSARC Information Requirements.—Implemented. Recent DSARC meetings had fewer briefings. We have also identified reductions in data requirements (e.g., DCP/IPS replaced by System Concept Paper at Milestone I). We will standardize and include in update to DoDD 5000.1/DoDI 5000.2.

No. 20, Improve Source Selection Process.—Tri-Service working group organized and in operation. Two meetings have been held to date. A basic orientation and theme have been established by mutual agreement. Working group is updating DoDD 4105.62 (Source Selection Directive) to place added emphasis on past performance, schedule realism, and cost credibility.

No. 24, DSARC Milestones.—We are conducting program-by-program review to determine which programs should follow new sequence of milestones. An interim guidance memo for Dr. DeLauer to send to Services is in preparation. Currently planned Milestone III programs are being reviewed to determine which reviews should be held at OSD and which should be delegated to Services. Will include this topic in update to DoDD 5000.1/DoDI 5000.2.

No. 25, MENS Submitted Not Later than POM.—We are currently reviewing Service POM's for major system acquisition new starts and MENS status. Letters have been prepared from Dr. DeLauer to Services asking for substantiation of new starts in POM 83. We will include in upadate of DoDD 5000.1/DoDI 5000.2.

No. 26, DSARC Membership.—Implemented. Services are full fledged DSARC members and attend executive sessions. Will include in update of DoDD 5000.1/ DoDI 5000.2.

No. 27, Acquistion Executive.—Implemented. USDRE designated DoD acquisition executive.

No. 28, DSARC Review Criteria.—Implemented. USDRE 10 June 1981 letter to Services delegated 10 programs from major systems list. Will include new thresholds in DoDD 5000.1/DoDI 5000.2 update.

No. 29, DSARC/PPBS Integration.—Affordability being considered at DSARC reviews. Service POM's (PPBS process) being reviewed for consistency with DSARC decisions. Issues were drafted accordingly. Will include in update to DoDD 5000.1/DoDI 5000.2.

No. 31, Improve Reliability and Support.—Will update DoDD 5000.1/DoDI 5000.2 to establish early acquisition strategy (including reliability and support) at Milestone I decision point.

Summary.—Except for follow-up by eventual incorporation in an update to 5000.1/.2, No's. 2, 12, 17, 26, 27, 28, and 29 are implemented. (Continuing surveillance will be necessary on No's. 2, 12, and 29.) Significant work is in progress on No's. 14, 20, 24, and 31.

LEGISLATION

No. 3, Multiyear Procurement.—Our end May report stated that the General Counsel submitted DoD's views on H.R. 745 to OMB on 6 May. Subsequent briefings were given to House/Senate Appropriations and Armed Services Committees. Section 909 (formerly H.R. 745) of H.R. 3519 has been reported out by the HASC. DoD supports the bill because it endorses the multiyear concept. Rep. Brooks has introduced an amendment that changes Section 909. We find little that is acceptable. The Services have submitted multiyear candidates in the fiscal year 83/87 POM.

No. 5, Encourage Capital Investment.—Proposed legislation to assign CAS Board responsibilities to OMB has been sent to our General Counsel for DoD coordination and submission to OMB. If approved, we will propose revisions to CAS 409 to provide DoD flexibility in determining depreciation schedules.

We have established an ad hoc committee to revise our contract criteria permitting private concerns to share in Defense Contract Cost reductions resulting

from productivity investments. We have also sent letters to the Military Services and DLA requesting aggressive actions to improve payment of contractor billing, expedite advance funding, and asking for suggested contract weighted guidelines changes in order to generate improved profit objectives commensurate with risk. Further actions must await findings of the ad hoc review committee.

We are continuing our review of DoD regulations to assure contractors are given all appropriate commercial and economic incentives of the patent system.

We are monitoring legislation to repeal the Vinson-Trammell Act. Further inputs to Congress will be on an "as required" basis.

No. 10, Reduce Procurement Costs and Time.—In the area of reducing procurement administrative lead times and associated costs, Sections 903 (a, b, and c) of H.R. 3519 (DoD's 1982 authorization bill); raises the $10,000 limit on purchase orders; raises from $100,000 to $500,000 the threshold for contractor cost data to accommodate inflation and reflect current auditing procedures; raises the contract determinations and findings (D&F) threshold from $100,000 to $5 million. We are monitoring these activities.

OASD(C) has initiated action to discuss with the congressional oversight committees and DOD's need to raise reprogramming thresholds from $2 million to $10 million for R&D appropriations, and from $5 million to $25 million for procurement appropriations.

No. 13, Legislative Burden.—On lightening the legislative burden:

Legislative proposal 97–87 to amend the Service Contract Act was forwarded to OMB 19 February 1981. No action yet taken by them.

Senator Armstrong has introduced a bill (which we support) (S–398) that will amend the Walsh-Healey Public Contracts Act and the Contract Working House and Safety Standards Act to permit a 10-hour day, 4-day work week. We are maintaining close surveillance.

Other socioeconomic programs have been reviewed and legislative proposals are nearing completion to amend the Davis-Bacon Act, Armed Services Procurement Act, Small Business Act, and the Copeland and Anti-Kickback Act. The raising of selected thresholds in these statutes concerning employment of the handicapped will result.

CONGRESSIONAL INTEREST

No. 5, Funding Flexibilty.—The ASD(C) has sent letters to the chief staff members of the four congressional oversight committees recommending that reprogramming thresholds for RDT&E appropriations be raised from $2 million to $10 million and that procurement be raised from $5 million to $25 million. Subsequent informal discussions between congressional and OSD staffers are expected to begin in July 1981. Revision of DOD/Congressional consensus has been obtained.

No. 18, Budgeting to Accommodate Inflation.—On the issue of budgeting for inflation, a SecDef letter to OMB has been drafted. It emphasizes the unique aspects of DOD's inflation problem and recommends corrective measures that can be taken. OASD(C) plans to get the letter signed out by end July 1981.

SERVICE ACTIONS

No. 8, Assure Appropriate Contract Type.—We are meeting with industry representatives to discuss the extent to which DOD misapplies contract types. We plan to have theirs and the Services' final recommendations completed by October 1981.

No. 11, Funds for Technological Risk.—The Services are working to develop an improved procedure to budget funds for technological risk. They plan to provide a joint recommendation to OSD by the end of July 1981.

No. 19 Forecasting Business Base Conditions.—Policy letters have been issued by the Services assigning responsibility to develop business base projections to contract administration functions. The Cost Analysis Improvement Group (CAIG) expects to complete the 1983 budget review for cross-Service business base effects by the end of August 1981.

No 22, Design to Cost Goals.—An OSD/Tri-Service Group has agreed to a course of action and is developing suitable language to improve the use of design-to-cost goals. We plan to have an OSD decision memorandum ready by September 1981 and a revised design-to-cost directive by October or November 1981.

READINESS

No. 9, System Support and Readiness.—A Deputy Secretary of Defense policy letter to the Services dated 13 June 1981 has been issued reaffirming DoD's weapon support policy and tasking them to develop implementing guide-lines. Time tables for accomplishment are due by end of July 1981.

No. 16, Reliability and Support Incentives.—Draft guidelines have been sent out to the Services for comment for improving reliability and support of defense equipment. An OSD guidance document is scheduled for end of July 1981.

No. 21, Standard Operational and Support Systems.—A memo to the Services on the increasing use of standard off-the-shelf subsystems and/or support systems has been forwarded for Dr. DeLauer's signature. Services' submission of candidate programs is expected by October 1981. A continuing program to implement standards should be completed shortly thereafter.

No. 30, Program Manager's Control of Support Resources.—A joint DASD(C)/MRA&L tasking memoradum to the Services (1 June 1981) requires procedures be developed to give the program managers greater voice in the allocation of support resources. Supporting budget guidance is scheduled for completion by the end of October 1981. Guidance for use in next year's POM should be available by the end of November 1981.

PRIVATE INDUSTRY INTEREST

We are working closely with our industrial counterparts in all of the Carlucci initiatives wherein there is a mutual interest. Examples are revisions to unrealistic thresholds under the Walsh Healey Act, the Contract Work Hours, and Service Contract Legislation. Others are the Costly Contract Administration Issue (Davis-Bacon Act), the use of D&F's Fee Limitations, and the Copeland Anti-Kickback problem.

Chairman TOWER. Senator Exon?

Senator EXON. Mr. Carlucci, can you tell us what specific weapon systems in fiscal 1982 and fiscal 1983 might come into play on your multiyear purchase?

Mr. CARLUCCI. On the multiyear contracting we have some in mind. I would not like to commit on them at this stage, Senator Exon.

Senator Tower mentioned one that we are looking at, the F–16 system. We want to make sure, of course, before we come to the Congress with a large proposal on multiyear contracting, that the program is a stable program, that we are not going to have change orders, a significant number of change orders, in the program. Some of those programs that we are looking at include, in addition to the F–16, Defense Support Program Satellites, TR–1 aircraft, AN TRC–170 Troposcatter, the Navy C–2A aircraft, and the Army Blackhawk. However, I would not like to commit at this time to those programs.

Senator EXON. What about the M–1 tank?

Chairman TOWER. Will you yield, Senator Exon?

Senator EXON. Yes.

Chairman TOWER. As you remember, we did in our bill in conference mandate the Department to come back to us with nominations for multiyear funding. Of course, that report will be required of them and we look forward to receiving that.

Mr. CARLUCCI. The M–1 tank we regard as too immature a program at this point, too subject to change, so we are not looking at the M–1 tank.

Senator EXON. You are not looking at the M–1 tank?

Mr. CARLUCCI. No, sir.

Senator EXON. Let me ask for verification, if I could, on this matter of inflation which we know is a kind of critical trigger as far as maintaining the budget restraint that is placed upon the Department of Defense.

I remember quite well earlier this spring when the Secretary came before this committee he gave testimony to the effect that the program that he was presenting to us was based upon the inflation rate and the overall cost rate at that time. However, he assured us that if the inflation rate should change he would be back asking us to raise the amount that he was requesting at that time.

I was a member of the Budget Committee and about 6 weeks after the testimony in front of this committee by the Secretary, the Budget Committee received a joint letter signed by the Secretary and the Director of the Office of Management and Budget, and in that letter to the Budget Committee, almost a direct opposite course was taken, that (a) they would make every effort to live within the restraints of the original proposal which more or less clearly spelled out that if inflation should disrupt some of the programs, that they would make internal changes within the Department to stay within those figures.

Can you clarify for me which goal is presently top priority in the Department?

Mr. CARLUCCI. Senator Exon, I do not regard these as mutually inconsistent. Certainly we have to try to make internal changes to get our costs down and I have just described a five-point program for making these changes.

On the other hand, it is my understanding that if we do have cost escalation which results from inflation higher than the OMB estimate, OMB has agreed to be supportive of supplemental funding.

Senator EXON. I am not sure that I agree with you that those policies are not inconsistent. At least I thank you for your clarification.

Would you possibly elaborate a little bit, Mr. Carlucci, on your testimony that you intended, as I understood it, to give the various Departments a little more flexibility—because I took it you wanted them to show some initiatives on what they could do to reduce some of the cost—could you describe a little bit what are some of the advantages and what are some of the disadvantages of such a program, if there are any?

The thrust of my question is, If we give flexibility to the various agencies and the various components of our military structure, are we not asking them to maybe run wild on what they happen to think is vitally necessary to their particular service?

Mr. CARLUCCI. Senator Exon, you will note in my short statement, which I think has not been distributed, I talked about the better definition of roles.

One of the problems that we found when we arrived at the Pentagon was that some components of the Office of the Secretary of Defense were virtually functioning in a line management role. Second, they were demanding of the services an excessive amount of detail.

One program memorandum which came up was 2,500 pages long. We had directed that the paperwork be reduced by approximately 50 percent as a target. I am pleased to say in the 1983 budget cycle we are dealing with substantially less paper.

I would look upon this as a sensible management program. The services do have the basic responsibility for line management. There is no reason why program managers should have to go through 90 briefings to pass one DSARC milestone. We have directed that this kind of unnecessary bureaucracy be cut down.

At the same time, I will emphasize that what we have talked about is a form of control decentralization. Policy formulation is going to continue to reside in the hands of the Secretary and he will receive policy advice from the Office of the Secretary of Defense. We are going to be even more dependent on that kind of policy advice as we expand our Defense Establishment.

The services, in turn, will be held accountable for their decisions. Certainly, they will have more authority, but the Service Secretaries will now sit on the Defense Resources Board; they will participate in the entire programing and budgeting processes, and they will be held fully accountable for the programs under their jurisdiction.

Finally, I did mention the goal program that the Secretary and I have instituted, where the Service Secretaries come before us once a week and tell us of their progress against the goals we have defined.

So, it is not a question of turning over the keys to the treasury chest to the Services; it is a question of better and, I believe, more appropriate, role definition.

Senator EXON. I suspect what you are saying is that you probably feel the lower you go in the echelon of management the more chances there are to improve efficiency. My point is that someone at the lower echelon might have very good ideas on how we could improve efficiency in a whole series of areas that might not be available, just because of the workload that you have, yourself, and the Secretary and the others in your strata in the management of our defense policy. Is that part of your thinking?

Mr. CARLUCCI. Yes, sir, that is part of the thinking.

The other part of the thinking is that the program manager has been so burdened by paperwork, by briefings, and by specific supervision—obviously a certain amount of supervision is essential—that he has not been able to pay enough attention to his program. That, in turn, has been partly the reason for some of the problems we have had.

Senator EXON. I thank you, Mr. Carlucci, and I salute your efforts. We will be looking forward to continued briefings on how you are getting along.

Thank you, Mr. Chairman.

Chairman TOWER. Senator Thurmond?

Senator THURMOND. Thank you, Mr. Chairman.

Mr. Carlucci, suppose I offered you a proposal where you could save $400 million a year in your budget and not cut back on a single program? Not only that, but my proposal would not put anyone out of work; it would not discriminate against anyone; it would not affect the quality of the end product. Would such a proposal be of interest to you?

Mr. CARLUCCI. It would be of interest, but when somebody approaches it like that, Senator Thurmond, I zip up my pockets.

Senator THURMOND. There is the opportunity for just such a proposal in your military construction program. In fact, the Armed Services Committee has added a provision. To waive the Davis-Bacon Act as it applies to military construction. This waiver provision is estimated to save about $400 million each year in the military construction program.

I do not know whether you have noticed or not, or whether you have been reading these articles, these speeches I have been giving in the record every morning on Davis-Bacon. Today I quoted from the U.S. News & World Report, from the New York Times, from the Washington Post, and about 25 or 30 newspapers, all advocating the repeal of Davis-Bacon.

Does DOD support this waiver provision?

Mr. CARLUCCI. Yes, sir, we do. We think that would be very important.

Senator THURMOND. I want to commend you for that and I feel you are on the right track, and I hope we can get it through.

Mr. Carlucci, what is your position on the armed services being required to reprogram cancellation funds out of their ongoing programs as a safeguard against indiscriminate cancellations?

Mr. CARLUCCI. Are you talking about multiyear procurement programs? I think you must be. Our preference on multiyear programing would be to go the full-funding route. Second, if we can't go the full funding route, there may be programs where we would want to engage in incremental funding, but we would have to look at that on a case-by-case basis.

It may be a problem in some instances to fund a cancellation liability, potential cancellation liability. This is something that has to be looked at on a case-by-case basis.

Let me ask Dr. DeLauer to amplify.

Dr. DELAUER. This is the case right now on the F–16 proposal. If you take a look at what might occur with cancellation in the first couple of years of the contract, the amount is quite substantial.

If you fully fund for that period of time and stay within the overall budget, other things will have to be reduced.

As you know, it is a pretty quick liquidating situation. There are high peak liabilities in the first couple of years of a multiyear program and, consequently, after you pass that period of time and no cancellation takes place, the cancellation fund is amortized in the out year delivery prices. Then the question is, what do you do with the funds that you have budgeted in the program but have not expended and have no intention of spending because your liability has passed?

There are many facets of that particular problem. Right now we are kind of wrestling with this thing with OMB and with Members of Congress, trying to come up with a solution.

Senator THURMOND. Thank you.

Mr. Carlucci, military manpower costs are relatively uncontrollable, leaving very little flexibility for new hardware or research and development. If multiyear procurement is widely implemented, will procurement flexibility tend to be reduced even more?

Dr. DELAUER. I don't know that there is a tradeoff. First of all, between our weapon systems and the military manpower—we need both. We need qualified people in sufficient numbers and we need weapon systems that are capable of countering those very sophisticatd systems being developed by our potential adversary.

Obviously, in a multiyear procurement there is some limitation on flexibility, because you cannot change the program from year to year, as we have tended to do in the past. Hence, it is incumbent upon

us in the Department of Defense—and we certainly want to consult fully with the committee on this matter—to select programs for multiyear procurement that are mature, stable programs.

When we can agree on a mature and stable program there is need for frequent changes. Substantial savings, usually on the order of 10 to 15 percent of the contract value, can result.

Senator THURMOND. Dr. DeLauer, what progress have you made in controlling and reducing indirect costs in defense research and engineering?

Dr. DELAUER. Senator, you have hit on my favorite topic. The progress may not be as rapid as we had hoped. On the other hand, we have a program underway by which people in my acquisition management organization are gathering the data.

As you know, we have available to us what we call forward bidding rates that all contractors have to negotiate in order for them to bid a program and therefore price it in the future. Those rates are negotiated with a local plant representative or agency. Those are available. I am pulling them together at the present time. We are looking at the trend with 100 top contractors that we have.

We are analyzing the trend of indirect expense, to see that they really should match, the fact that we are indeed spending more money and the base should go up, which would mean the rate should come down.

When we finish that analysis, which should be in the next 30 days or so, I am prepared to recommend to Secretary Carlucci and Secretary Weinberger that we address a personal message to each of the chief executives of these organizations, acquainting them with the facts as we analyze them, commending them if it is going down, reminding them, if it is going up, that we don't think it should do so.

We feel if we bring it to their attention something will happen.

As you might be aware, notwithstanding not particularly our program, the new chief executive of General Electric, Mr. Welch, has already done that, and his organization has dropped the indirect cost by 10 percent. He just put out the directive and they went ahead and did it.

We think there is a lot of leverage in this. This program has just now started.

Senator THURMOND. Mr. Quetsch, what progress has been made in reducing travel, consulting services, office furniture and other marginal, unproductive costs, since the beginning of the year?

Mr. QUETSCH. As you know, in the March revision of the budget we did reduce all those areas sharply. Obviously, we can't give you the particulars because what we did was assign targets to each military department based on the size of their budget and the part of the budget that was susceptible to travel.

We have to be very careful in assigning those targets because large parts of the travel budget directly impact on the ability of the service to perform, train their people and so forth.

Similarly, when we get to targeting a reduction in consultants to save money, we have to be very careful, because when we look at total dollars, those involve in some cases weapons programs on which we are seeking expert advise.

All of the services have been given targets that are outlined in that same March savings package. As far as we know, they will all meet those targets. We have had no appeals from either the 1981 or the 1982 targets. I say yes—although inflation is something we have to worry about, for travel costs particularly—we think we can make those targets.

Senator THURMOND. Are you encouraged in reaching your goals and are you getting cooperation?

Mr. QUETSCH. Yes, sir. Remember, we are at the end of 1981. We are very confident that we can live with those reductions. Many of them are one time. For instance, the furniture reduction was just a moratorium while we examined the need to perhaps replace some of that furniture or equipment.

Gradually, as we have received the service plans, we have approved them and told them they can go ahead and buy, now that we have seen their plans. In some cases we did not see them, but they were approved at a higher level in the military departments.

For 1982 it is too early to say, but the preliminary indications are that with the agreement and the reconciliation bill that we can probably live with the reductions that are going to be imposed or which we have imposed on ourselves.

Mr. CARLUCCI. Those reduction figures are $20 million in 1982, that is $20 million in travel, and $100 million in consultants.

Senator THURMOND. Thank you.

Mr. Sherick, what is the status of the DRB expansion process, and what progress has been made on the 5-year procurement plan?

Mr. SHERICK. Secretary Carlucci has evaluated the acquisition process and recommended several actions which include: changes in the planning, programing, and budgeting systems; the expansion of the DRB membership to include the service secretaries; a reduction in paperwork required to support the budget and program submissions within the Department; and the coordination of the approach to programing and budgeting with increased emphasis on tying the front end planning to funding. The coordination of the programing and funding of the plan will be a major improvement. These are just a few aspects of the 32 points Mr. Carlucci referred to earlier.

Senator THURMOND. Thank you.

Thank you, Mr. Chairman.

Chairman TOWER. Senator Stennis?

Senator STENNIS. Thank you very much, Mr. Chairman.

Mr. Secretary, I think you have filed a good statement and a short summary here is certainly worth saving. You have 32 initiatives that sound all right.

I have had contact for a long time as chairman of the Subcommittee on Military Construction for a good number of years and went into some of those matters. I had contact, too, with men like Mr. Wilson of General Motors; Mr. McNamara, former President of Ford Motor Co.; Mr. Packard, one of your direct predecessors; Mr. Brown, who went out of office in January, a very learned man; Secretary Laird, a fine fellow, an active member of the House of Representatives for a long time. Those were not pushovers; they were not ordinary

fellows, but there were a lot of things that they did not get done that they wanted done.

Yor and your associates are confronted with somewhat the same problems. I like what you say. You have a great reputation for being a doer of things. I am sure you have competent assistants.

As I see it, you just can't get it all: you take out a few of these budgets and ride them hard and set the pace, and it will spill over into the rest of them.

I have always been thankful that we didn't have to build all this hardware with Government-owned plants. Now, that is something that is easily overlocked, but we have to give credit to the Department of Defense. You have to remember that it is a better system than it would be, I think, if the Government had to do all of that—set up factories and everything—to build different kinds of planes, different kinds of ships.

We would be a lot worse off and it would be more expensive. That is seldom ever mentioned to the public. It is seldom ever mentioned in debate. I certainly give credit to the military in that way. They deal with private enterprise and they deal with a lot of very proficient men in the civilian sector.

I will be gaging your work along those lines.

I want to mention two things:

You are getting a free ride. It is easy to get the money. I don't believe that that will last. Manpower, et cetera, is moving in on you mighty fast percentagewise. It is getting a higher and higher percentage of that military dollar, however scarce it may be in your second, third, or fourth year of service. I think there will be a reaction or backfire by the so-called other departments of social services and others, and I speak with proper respect for them. They are not knocked out: they will be competing for that dollar in the years to come.

So, I just mention that now. Keep that in the back of your mind in the plans you are making now, that you will have to pay for 2 years from now. It will be a different picture somewhat.

I think this committee is generally in your corner. We are not trying to discount your work but are trying to encourage it. I have always thought that you, being a man of prudence, will be careful in spending the military dollars, except in a real emergency.

I commend you for the way you are working on it.

Thank you, Mr. Chairman.

Mr. CARLUCCI. Thank you, Senator Stennis.

Chairman TOWER. Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman.

Mr. Carlucci, I agree with Senator Tower on your statement at the beginning of this session as far as not being able to do it "on the cheap." We are not going to be able to purchase the kind of military we need if we approach it on the philosophy of doing it "on the cheap." I think also there is p retty strong sentiment, I think shared by the committee, that we ca n do it differently and we can do it better.

I will point out that you cited wit h some respect to Dr. Gansler. He recently gave a paper and I quote d from it. He said:

> But only with changes in defense procurement practices will taxpayers get their money's worth. Our defense industrial base indicates that these increased

dollars will mostly result in a rise in the price of military goods rather than additional quantities of required equipment.

Also Mr. Leonard Sullivan, interviewed in this month's Armed Forces Journal, said:

We are not falling behind because the RDT&E cycle is too long. We are falling behind because we are not producing enough of the things we develop. We have been spending too much on too few systems that cost too much to buy and to operate and then we are left with the rest of the force becoming obsolete, we can't afford to replace it all.

So we have these two experts who share your concern that we have to do it differently.

Now there are two other points that come to mind. First of all, you have an institutional problem that you have to deal with, you and the others at the table. Again, I quote from Leonard Sullivan's interview in this month's issue of the Journal. He said, "Fortunately, the services tend to agree with your recommendation. If they didn't agree with the contents, they would file it".

Well, Congress, which bears some responsibility for inadequacies of our funding programs, has also run into the same problem. If they don't agree with our recommendation, they will file it or they will ignore it. That has been the case in a number of instances which I won't go into this morning. It seems to me you have that particular issue to deal with.

Second, you have the problem of long term. Mr. Sullivan says, "It is somewhat depressing to realize Nancy Reagan will never get to christen an aircraft carrier even if her husband serves two full terms."

All of your recommendations probably won't be able to evaluate the effectiveness of a program manager until 8 years from now when we find out whether in fact they did work out.

Senator COHEN. One of the criticisms I think again of the recommendations pertains to the multiyear contraction. I noticed with interest an item in the Wall Street Journal criticizing Congress for insisting on annual appropriations in dealing on a year-by-year basis, not going into multiyear contracting, but there is a recognition at least that you have some problems with multiyear contracting.

Also Dr. Gansler proposes that we go to a dual source. Now apparently the dual sourcing recommendation was not part of your recommendation. I would just like to explore that a bit with you.

Gansler argues that the single most important difference between defense and civilian business stems from the all too frequent absence of alternatives in the military procurement process. In defense, there customarily is a fierce rivalry during initial competition for an award of a contract. But after this initial competition—frequently awarded based upon a firm's "buy-in"—the winner becomes the sole developer and producer for the military system for the next 20 years. Therefore, the sole source producer increases the price and the Government has little choice but to accept the cost increases.

Do you support the use of dual sourcing in multiyear contracting?

Mr. CARLUCCI. Senator Cohen, I sympathized with much of what you said before you got to your question. We certainly do have a problem with the industrial base and that, of course, is responsible for some of our long lead times. We, the U.S. Government, the Congress, and Department of Defense, have engaged in a stretchout which in turn leads to a reduced industrial base. We are actively examining the question of dual source. We are not opposed to it. In fact, I put

out a memo just yesterday emphasizing the importance of competition in defense procurement. We want to get our figures on competition even higher than they are.

There may be appropriate instances where we want to go to dual sources. Those could or could not be a multiyear contract. Wherever we think the dual sourcing will get the ultimate cost down, we are prepared to examine it as an alternative.

A word of caution though, that is, dual sourcing requires more money up front. So it is going to require greater sacrifices on the part of the administration and Congress, more program kills, if you will, to make sure we save money in the long run on a given program.

Let me ask Dr. DeLauer if he wants to add to that.

Dr. DeLauer. We have been looking at that. Jack Gansler and I have been associated in much of the things he based his book on. He was a member of the Defense Science Board review I chaired which looked at the acquisition process. Dual sourcing, when done properly, has always been a great competitive process. It does keep the peoples' attention. On the other hand, you want to be sure that you have a need for that kind of investment in the contractor base so that you can use the articles.

You can also have dual sourcing below the prime. You can have it for the first tier subcontractor or at the vendor level. We are in the process of reviewing a program that one of the west coast contractors did because of the drying up of the vendor base. They found that when they had a sole source situation in the vendor and made an investment in another source, to have a dual source, that they got back 20 to 1 on that investment over the life of the program.

Now if that is indeed factual and it can be applied on a broader defense, we are going to have to do more of that.

Senator Cohen. His point is that when you only have competition in its initial stages and you have one firm buying in and having no cross-fertilization, then you effectively eliminate competition down the line when the real price tab starts to hit the Congress or the Defense Department and you have no ability to control other than to pay the tab on what has been negotiated.

Dr. DeLauer. That is right. The point is, even if you have to select one out of two or one out of three for a particular program at the prime level, you can insist and base your source selection evaluation on whether the prime will have dual source capability in its subcontracting. That keeps the competition going.

Senator Cohen. It is my understanding that the majority of the $80 billion awarded in the 1980 defense contracts were awarded on a noncompetitive basis. There was a recent GAO survey dealing with DOD consultant contracts. Eighty-two percent were awarded as sole source contracts and the GAO was highly critical of the justification that the Department provided for sole source awards.

Do you intend to encourage more competitive contracting?

Mr. Carlucci. We do. I would like, with the chairman's permission, to submit for the record memos that I sent out yesterday encouraging competition. The figures that we have aren't quite as dire as the figures you have, Senator Cohen. In fiscal year 1980 in terms of dollar volume, 56 percent of our contracts were based on competition.

In 1981, the first 6 months, that figure goes up to 69 percent. There may be a definition problem here because I have included in my figures price competition which in the first 6 months of 1981 accounts for 35 percent by dollar volume; technical and design competition which in many cases includes an element of price competition for an additional 10 percent; follow-on contracts, follow-on after price competition, which is 2 percent, and follow-on after design competition which is 19 percent; and 3 percent of the contracts which arise from catalog or market price purchases, the total is 69 percent.

But having said that, we would like to get better and we think we can. My memo very strongly encourages the services and other DOD components to engage actively in greater competition.

Senator COHEN. Mr. Chairman, my time is up. May I ask one quick question, or I will save it and come back on the second round?

Chairman TOWER. Senator Nunn?

Senator NUNN. Mr. Chairman, I came in late.

Chairman TOWER. Senator Levin?

Senator LEVIN. Thank you, Senator Nunn and thank you, Mr. Chairman.

Many of us have been spending a great deal of time on the question on waste in the Defense budget. We deal in a lot of general statements, maybe starting with that statement of Director Stockman of OMB that there wasn't much saving this year in the Defense budget and the reason why, "There is so much waste in the Defense Department it has taken it longer to figure it out."

What is your reaction to that?

Mr. CARLUCCI. I disagree with that.

Senator LEVIN. Moving from that general statement and dealing with some general figures, the first figure is in the procurement by DOD that enough holes permit cost growth in some systems of 200 percent, an average of 45 percent. The figures you just quoted for procurement are totally different from the ones we got out of the House committee report which we understood they got from DOD. I think you estimated over 60 percent was competitive.

Mr. CARLUCCI. It is by dollar volume. The figures include price design competition and follow-on contracts to sources initially established as a result of earlier competition. If only price and design competition for fiscal year 1980 were considered competitive, the percentages would be 36 percent competition and 64 percent source.

Senator LEVIN. The figures we have from that House report, which we understand was based on a DOD printout, is that sole source amounted to 65 percent of the dollars for fiscal year 1980, the total procurement dollars being $38 billion, the sole source being $53 billion. So it is quite a discrepancy in figures. Maybe we can figure those out for the record in some appropriate way. In any event the only way we are going to make any progress is if we get down to specific changes.

Frankly I have a great deal of difficulty this morning understanding how we are able to analyze your statement when it just comes in the morning of the hearing. We do have a rule here which requires 3 days advanced preparation of these statements. We waive the rule with great frequency. I do not want to pick on you because you are not the first in not having a statement in advance. You are not different

from most of the witnesses we have before us. This subject is so complex and it is so necessary that we move from generalities to specifics that I have a great deal of difficulty in analyzing a statement when we don't get it until the morning of the hearing.

I also have a great deal of difficulty, for instance, when you make reference in your statement to your 32 initiatives which relate perhaps to the most important subject that is part of procurement which is greater competition. I don't have a copy of your 32 initiatives. That is the document you now are submitting for the record?

Mr. CARLUCCI. Yes, I have it here.

Senator LEVIN. I am not going to be able to analyze that now either. I think it is so important in dealing with this area that we get into specifics fast in order to achieve that. I think it requires maximum cooperation in advance submission of statements to analyze them.

Let us talk about competition a bit. The committee agreed to an amendment which I offered on the 1982 bill which relates to the awarding of sole source contract, section 908(A). I am wondering what your position is on that section?

Mr. CARLUCCI. I am not personally familiar with that, Senator Levin. I will have to submit something for the record on it.

Dr. DELAUER. We will have to look that one up, Senator Levin. It does not ring a bell. We will respond.

Senator LEVIN. It is a requirement relating to sole source contract. It is about four pages long. I don't think it would be fair to the amendment for you to summarize it. I think it is important that we have your position on the record. There is some rumor that the Defense Department may be objecting to this amendment. If so, it may make it difficult for us to accept it in conference. What it does is require you to publish any contract for more than $100,000. You have to publish in the Commerce Business Daily your notice of intent to award such contract. You have to include in the notice all information pertaining to it so that people can read that daily and other possible competitors to see what the contract is about.

You have to allow a period of 30 days after publication of such notice for other contractors to bid on the contract. You have also got to provide reports to the Armed Services Committees relative to sole source contracting and, unhappily may I say, we have had to exclude (sole source) contracting that involves follow-on contracts. We had to exclude that from the definition in order to get it to the floor and have the amendment adopted even in the committee. Even with that weakening modification necessary to get that achieved here, this is a real advanced step in terms of trying to increase the amount of competition in defense contracts.

Can you get a statement for the record of your position on that amendment and can you also for the record tell us if you believe it is necessary that we exclude follow-on contracts or production contracts from the definition of sole source contracts?

Dr. DELAUER. Absolutely.

[The information follows:]

Attached is a letter of July 31, 1981, to the Chairman, Committee on Armed Services, United States Senate, setting forth the DOD position on section 908 of S. 815.

OFFICE OF THE UNDER SECRETARY OF DEFENSE,
Washington, D.C., July 31, 1981.

Hon. JOHN TOWER,
Chairman, Committee on Armed Services,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the course of the hearings your committee conducted on July 28, 1981, two sections of S. 815 were discussed that require a more affirmative position by this Department. One is section 908 concerning sole-source contract awards, and the other is section 921 concerning debarment or suspension of a contractor by another agency.

Section 908 provides that no sole-source contract exceeding $100,000 may be awarded, unless it is preceded by a 30-day public notice published in the Commerce Business Daily (CBD). It further requires the Secretary of Defense or his authorized designees to approve sole-source awards with authority to waive the requirements because of national security reasons. An annual report of sole-source awards is also required.

Section 2304(a) of title 10, United States Code, and the implementing regulations issued by the Department of Defense require that determinations be made before negotiation of a contract can be conducted. As a part of this process, special attention is given to proposed sole-source awards to ensure the need to award on a sole-source basis is justified.

Additionally, the Defense Acquisition Regulation, Section I, Part 10, which implements a requirement in the Small Business Act, currently requires publicizing (synopsizing) in the CBD, at least 10 days before,[1] proposed procurements of $10,000 or more, with some limited exceptions; e.g., perishable supplies, utility services, and urgent procurements.

It is our opinion that section 908 conflicts and duplicates existing regulatory requirements, and it does so in a manner that would create needless and unnecessary paperwork and will extend procurement lead time for those procurements that are required to be publicized. For this reason, we are opposed to section 908.

Section 921 prohibits this Department from soliciting offers or awarding contractors that have been debarred or suspended by another agency, unless there are compelling reasons to proceed with the purchase. This flexibility meets our basic objection; but this is a government-wide matter, and any such requirement should be applicable to all agencies—not imposed in legislation applicable only to Department of Defense procurement.

Actually, no legislation is needed. The Office of Federal Procurement Policy issued on 16 July 1981, for public comment, a proposed Policy Letter 81-3 providing policy guidance concerning government-wide debarment and suspension. The proposed policy would have the same effect as section 921. We believe this to be a perferable approach.

I believe it essential that careful consideration be given before imposing any additional legislative requirements on the acquisition process. The process is already overburdened with legislative, regulatory, and costly administrative requirements. Our objective in improving the acquisition process is directed at obtaining quality supplies and services at the least cost, or stated another way, containing cost growth.

ROBERT F. TRIMBLE,
Acting Deputy Under Secretary
(Acquisition Management).

Mr. CARLUCCI. I do think it is important to exclude follow-on contracts, otherwise we will introduce an element of instability in our programs. In terms of reporting and publicity, in principal I have no objection but I would reserve judgment on your particular amendment until I have had a chance to study it. I think publicity on our contract is desirable. In terms of follow-on contracts the whole thrust is one of stability. If we are going to revitalize the industrial base, which in turn provides the element of competition that we need, we need to guarantee them some stability so that the investment will come back into that base. If we are going to be obliged to start

[1] Solicitation.

renegotiating follow-on contracts automatically, then I think that is a highly undesirable feature.

Senator LEVIN. You have asked for studies on this question and you have received them. One company giving us the information is Analytic Science Corp. It shows annual reporting program savings of 33 percent.

Mr. CARLUCCI. I am not familiar with that study either. There may be instances where it is desirable to compete a follow-on contract. I do not think that we should be made to do that as a matter of course.

Senator LEVIN. You have no objection offhand though at least to the reporting provisions of that amendment relative to the follow-on contract?

Dr. DELAUER. Possibly not, as your amendment excludes follow-on contract. We would like to keep it that way.

Senator LEVIN. The other part of the amendment, are you in a position to support that?

Dr. DELAUER. We may have no objection to that, Senator, but I need to see that the committee gets a position on section 908. We would like to see the Small Business Act requirement and this requirement, if enacted, merged together so that we don't have redundant and conflicting rules to follow. One objection I have is the length of time. You would allow for 30 days before award. We would like it to be 10 days before solicitation. In a lot of cases these are smaller awards. Even though they are single source the decision is not really known 30 days ahead of time in many cases. We would like to keep that period to 10 days before solicitation as required by our regulators implementing a requirement in the Small Business Act to publicize. We don't take complete umbrage with the whole thing. We are currently removing one of the 10 exceptions to publicizing right now.

Senator LEVIN. Does the regulation that already exists provide for 14 days in those cases?

Dr. DELAUER. The present defense acquisition regulation calls for synopsizing, when feasible, no later than 10 days before solicitation. In the case of architect our engineering services and research and development the requirement is 14 days.

Senator LEVIN. Are you familiar with the testimony before the Joint Economic Committee in the year 1970's about small business not competing on follow-on contracts?

Dr. DELAUER. I can't remember back to that, no.

Senator LEVIN. Another example where I think the specifics are so useful is in the area of the debarment and suspension. We have contractors that are working for the Department of Defense that have been debarred and suspended by other agencies for fraud. In fact, we have contractors that are working. One example that just recently came to mind is the Corps of Engineers. We have 16 companies, 10 individuals, who are indicted for bid rigging on Government contracts, mail fraud, filing claims against the Federal Government; 15 companies, 9 individuals, convicted. They are still working.

You are still giving them contracts. I have to give you the facts. We have a fact sheet on it. Senator Cohen offered an amendment here which I cosponsored which will presumptively debar a contractor from

working for the Defense Department if he has been debarred or suspended by any other agency.

Mr. CARLUCCI. We object to that, Senator Levin. We can certainly agree in principle that anyone who has been debarred by another agency is questionable for a defense contract award, but we have certain national security needs. I could readily see a situation where we might have a sole contractor in the business, and there are a couple of areas where we have them.

Senator LEVIN. The language provides for exceptions for national security needs. That is not the issue. The issue is whether or not presumptively a company which has been debarred or suspended by another agency should be debarred or suspended by the Department of Defense.

Mr. CARLUCCI. I have no objection in principle to that. However, I believe it should be Government-wide and preferably by regulation.

Senator LEVIN. That is in the amendment.

Senator COHEN. The exception is DOD will file a certificate, certifying national security interests.

Mr. CARLUCCI. I have no problem with that.

Senator LEVIN. If I could end with a follow-on question to that.

Chairman TOWER. Senator Levin, your time is up.

Senator Nunn?

Senator NUNN. Mr. Chairman, unfortunately, I have to go back to the floor. There is an amendment pending over there that I am a coauthor of.

Mr. Secretary, I want to congratulate you and your team for taking on the subject of procurement. I know you have been doing a lot of work on it. I don't know anything more important both in terms of providing defense needs, improving our efficiency and also in continuing the consensus so hard to build in the national security area.

If we don't improve our practices, both in reality and perception, then the consensus we have built will begin to erode very rapidly.

I look forward to working with you for that purpose.

In recommendation 18 of your April 30, 1981, memo on weapon systems inflation, you say, "Historically, inflation predictions have been less than the actual inflation that has come to pass."

Your recommendation was for reviewing various methods and alternatives for budgeting more realistically for inflation. I agree with that. I don't think anything is more important than that. I think it is where you allow the procurement problem to start.

Your required action was providing you with a decision paper within 30 days, with various alternatives. The question is, What actions have been taken with OMB and Congress to implement those recommendations, if any?

Mr. CARLUCCI. Mr. DeBorsis is presently out of town. He told me he has his report ready. I have not had a chance to review it. We will take this subject up with OMB during the 1983 budget process and we will be engaged intensively in that process into late August.

I can't inform you as to what his recommendations are.

Senator NUNN. Could you furnish us for the record the options on this inflation estimate? It is something we are working on. I have a procurement amendment we are meeting on this afternoon. It will be very helpful if we could have a copy of that.

Mr. CARLUCCI. I will be glad to brief you. I would consider it an internal working document because it is the President who makes the final decision on the budget and the inflation rates that accompany that budget.

I will be glad to ask Dr. DeLauer to brief you on options.

Senator NUNN. The main thing is to know what the options are.

Mr. CARLUCCI. We will be happy to brief you on the options. I think it would be prejudicial to the orderly decisionmaking process and executive branch and harmful to the President in terms of putting the budget together, were we to make the paper available.

Senator NUNN. Mr. Secretary, do you have any indication of the overall cost growth that has taken place, if any, on the July 31 SAR that will be coming in the acquisition report? Do you have any indication now as to what that cost growth will be?

Mr. QUETSCH. I have not yet seen the preliminary report for July.

Senator NUNN. When is that usually made?

Mr. QUETSCH. The final one is about 45 days. I am not sure when the preliminary report will be in. It should be in very shortly.

Senator NUNN. This is one of the things that my amendment is getting to. We are sitting here with experts at the table. I know all of you have a heavy load, but we are about to get a SAR report and it is going to indicate either cost growth or no cost growth, and so forth. The decisionmakers don't know about it.

We need something that triggers a preliminary look by the top people when we are getting real cost growth in these programs. That is what the amendment is aimed for.

So, really none of you knows whether we have cost growth, I assume, in any particular weapon system? Do you know whether we have any that go over 10 or 15 percent?

Mr. QUETSCH. I can't tell you, Senator, but the fact it has not been triggered up here does not mean that somebody in the system doesn't know it.

Senator NUNN. Does anybody high enough know to do anything about it? That is the second question. It is not if you know. Then the cost growth will be reported on the 31st and the top people won't know it until there it is. That is the thing which we have to get at if we are going to make these programs to control inflation. Something has to kick upstairs an alarm bell when the system starts getting out of whack.

Mr. CARLUCCI. It is a matter of compiling data and getting it up to us. We try to get the SAR as rapidly as we can. We are as interested as you are.

Senator NUNN. There ought to be some particular system so that some very brief report comes up. As that project manager knows he has a problem, somebody upstairs should know.

Mr. CARLUCCI. That is a fair enough point.

Senator NUNN. That is the intent of my amendment. I know you all have problems with it now, but I would hope we could work together to carry out that intent. That is what we need; we need to get decisionmakers at the top to know when a program is getting out of control and is far enough in advance to do something about it.

Mr. CARLUCCI. We sympathize entirely with that concern. We are happy to work with you on the amendment.

Senator NUNN. Mr. Quetsch, you are the top manager in OSD responsible for paying bills—is that right—insuring that the ledger sheets are in order?

Mr. QUETSCH. On this particular day, yes, sir.

Senator NUNN. In your personal opinion, can the programs in the fiscal year 1982 amended DOD budget be met with the requested outlay fiqures that are now the administration's outlay figures?

Mr. QUETSCH. As best we can say, yes, they can.

As you know, we have lowered our estimate for 1981, apart from congressional action and so forth, by $2 billion. We are still examining those to see whether there is an underlying slowing in the trend of spending; but the best we can do right now is, yes, we think we can.

Senator NUNN. For 1982?

Mr. QUETSCH. For 1982, given the programs as they have been presented and in some cases acted on by the Congress.

Senator NUNN. In what year are we going to have trouble with outlays? If we are getting behind now in 1981, does that mean we are going to have an overestimate of outlays? What is your best judgment about the fiscal year where we will be in danger of running over in outlays, if that is your judgment at any point?

Mr. QUETSCH. I am not saying that no program will overrun. The question I thought you were asking was more or less in the context——

Senator NUNN. I am talking about total, not individual programs.

Mr. QUETSCH. That is the way I was addressing it. Individual programs will show growth. When will that become uncontrollable so that we will have to take some drastic program action to reduce it? I don't know, because with a growing program, if there is an underlying trend of slower spending at the appropriation level and total level, because we have a growing program that won't happen perhaps until—I just can't be sure, but we will never catch up if the first year's spending is slower.

If what we see in 1981 is a 1-year lag in spending that will hit us in 1982 or a 1-year lag that will hit us in 1983, then we might have a problem.

We are addressing it in the context of the Stockman-Weinberger letter that we can live with.

Senator NUNN. You are confident you will be able to stay with the outlay level in 1982?

Mr. QUETSCH. That is my best guess; yes, sir.

Senator NUNN. The CBO has, I believe, estimated you are going to be $4, $5, or $6 billion over in outlays. I believe that is for 1982. Have you looked at those figures?

Mr. QUETSCH. I have not looked at those figures. There have been some estimates within the administration We talk to OMB about that all the time in the context of cash management.

There are some estimates it might be perhaps $2 billion over.

Senator NUNN. $2 billion over in 1982?

Mr. QUETSCH. In 1982. My own feeling is that I am not prepared to say that we will be.

Senator NUNN. Whose figures were those that showed $2 billion over?

Mr. QUETSCH. I don't even remember. It is something we discuss almost every week where the outlay is going. There has been something of a speedup in procurement but there seems to be a slowing in O. & M. That is what we are analyzing now.

Senator NUNN. Thank you, Mr Chairman.

Chairman TOWER. Senator Denton?

Senator DENTON. Thank you, Mr. Chairman.

Mr. Carlucci, I am sure all my colleagues have stressed our recognition that we witness the emergence of programs that are very important to increasing our national security and yet retain a substantive fiscally responsible nature, and I believe we all need to congratulate you and your colleagues on that.

I have been very impressed by the diligence of my colleagues on this committee in that respect. In any government system that requires increased expenditures, the foundation of consensus is only as solid as the planning and foresight used to address the problem.

With the increased emphasis being placed on a policy of total force, it is extremely perplexing to me to find more and more Reserve units falling in the lowest categories of combat readiness due to severe equipment shortages.

I am particularly concerned with stemming the tide on this issue, since I have recently introduced, and am in the process of rewriting, legislation designed to expedite Presidential access to the Reserves in certain urgent circumstances where it would be judged calling up some Reserves would be the best response available. Obviously, such access would lack credibility, for these forces lack equipment.

The Reserve equipment problems have persisted for some time. Have you developed or are you in the process of developing a specific policy which addresses both the near- and the long-term equipment problems commensurate with the integral goal which Reserves play in our total force? I realize you have had, in terms of really pressing priority, some that may have taken precedence with respect to the time in which you address them, but have you thought about this and, if not, will you give considerable thought to it in the near future, in view of the possibility of this legislation being passed?

I am going to work very closely with my chairman, whose judgment I respect very much. As I say, we are rewriting this bill. We are trying to stay in touch with all of the sources of experience and counsel on this. I do intend to pursue the legislation. So, you make any remarks about the likelihood that the Reserve unit equipment shortage will be addressed.

Mr. CARLUCCI. Thank you, Senator Denton.

We have not, in this process, addressed equipment to the Reserves as a separate issue, to be quite frank with you. Consistent with the total force concept, when we procure a weapons system, we look at the total force need.

I agree with you that the state of equipment in the Reserves is deplorable.

Senator DENTON. I believe it might be stated, despite the fact we do have across-the-board forces with the Active Forces, it may be proper to conclude that the shortage among Reserves is relatively worse?

Mr. CARLUCCI. I think it is relatively worse. We have somewhat of a tradeoff here in the modernization area.

As the committee is aware, our first priority in the 1982 amendment and 1981 supplemental in particular was readiness. We found our military units in a shocking state of readiness simply because they did

not have adequate spares. They were cannibalizing. They did not have the kind of ammunition they needed. They didn't have ammunition to engage in training. So we had to address that as a first priority.

We then moved to modernization, but we have looked at weapon systems as a totality and how they will be used in the total force concept, rather than saying this weapons system will be developed for a Reserve unit.

But your point is well taken and I will be glad to look at how we might improve the state of equipment in the Reserves while at the same time meeting the very real needs of our Active Forces.

As I indicated, there is a tradeoff area.

Senator DENTON. Thank you very much.

Thank you, Mr. Chairman.

Chairman TOWER. Senator Exon?

Senator EXON. Thank you, Mr. Chairman.

Mr. Carlucci, this is a kind of philosophical question, but I think it is a rather important one. There have been complaints that all too often, in fact, seemingly it is the exception rather than the rule, that the first contract for almost any weapon system has little relationship to the eventual total cost of the entire program or even the individual components thereof.

What can be done, in your opinion, to change that, if you agree with me they exist, which I suspect you will? Second, do you think it could improve our planning and budgeting procedures if we required a total figure on cost of not only the amount of procurement but also the operating expenses of the system proposed over the entire life span of the system?

Mr. CARLUCCI. I do agree with your thesis, that the final cost bares very little relationship to the initial figure that we receive. My answer, not surprisingly, is that we need support for the total program that I have outlined before this committee, one that brings about a certain amount of stability in the contracting process, one that budgets adequately at the front end for our programs, one that uses the evolutionary approach, preplanned product improvements, rather than pushing the frontiers of technology, and one that emphasizes competition.

I think it is useful in the PPBS system to look at the total cost of the program in terms of funding for spares, design changes, testing, and other forms of readiness. I don't think it would add much to our ability to get a handle on this problem to try to calculate the operating costs over the life cycle of the system.

We could make those estimates, but I don't think that will help us in terms of the contracting process.

Senator EXON. Let me go into a specific example. In the Senate version of the 1982 authorization bill we are trying to address this initial problem. We have provided for $50 million to be set up as encouragement for a second-source contract for the infantry fighting vehicle. It provides if the Army wants to use this, they can. If they don't go for the second-source contract, then they cannot spend the $50 million.

Do you like that provision in our bill, or do you think that is a bad one?

Mr. CARLUCCI. Dr. DeLauer tells me I can get off the hook on that question by turning it over to him.

Dr. DELAUER. There is good news and bad news in that bill. There is no question that we would like to develop the second source we talked about a moment ago, if it would indeed save us some money.

At this time it is not obvious to use with the amount of work we have done on it in this particular instance that a second-source prime is the right way to go.

We are taking a look at perhaps competing more of the vehicle by breaking out certain things that are done at the prime level and perhaps do it on a multiple-source basis in that way.

Right now we can't tell you whether or not competing it at the prime is the right thing to do.

What we have done is have some analysis by three potential competitors. They will provide us information on what it is going to take to initiate such a program, because there is a lot of upfront cost, as Secretary Carlucci mentioned before.

We are going to have these back in about 8 months. We will have these analyses back by these potential competitors, then we will do the analysis, and we will review it, seeing whether or not this is a viable approach, or whether some intermediate approach will be the most advantageous thing to do.

That is where we are in this program. We are going to need some money to do this, and we are giving it a good look.

Senator EXON. Let me get into another specific. Before I came here, when we went into the XM–1 tank, am I correct that the assumption originally was that that tank was going to cost about, what?

Mr. CARLUCCI. In 1972 dollars it was $507.8 per copy.

Senator EXON. What will it be next year?

Mr. CARLUCCI. These are not compatible figures. That has been part of the problem.

Senator EXON. Why is that? Why aren't they compatible?

Mr. CARLUCCI. The next figure is $2.8 million. To move from the $507.8 to the $2.8 million you add in testing, training, spare parts, R. & D. cost, management and support, transportation, common items for the production base. The two figures that have been used are not, I am told, comparable.

Senator EXON. What is the comparable figure with the $500,000 original figure?

Mr. CARLUCCI. We have to estimate this. I don't have that comparable figure.

Senator EXON. If you could supply it for the record.

[The information follows:]

M1 TANK

In 1972 the Army and OSD agreed to a Design to Hardware Unit Cost (DTHUC) goal of $507.8K (1972 dollars). This unit cost goal was presented to and accepted by the Congress and has remained the bench mark against which Congress has measured Army compliance with original Congressional directions to keep the cost of the M1 down.

Recent press articles and TV commentaries have alleged the M1 cost has experienced considerable cost growth. To "prove" the point, comparisons have been made between the M1's original hardware unit cost goal in 1972 dollars ($507. 8K—upper left value below) and the system acquisition unit cost estimate in inflated dollars measured across the life of the program ($2,807.7K—lower right below). The two are not comparable. The hardware unit cost is solely the recurring manufacturing cost. The system acquisition unit cost includes: the

hardware unit cost; initial production facilities; management and support; test, training and support equipment; initial spares and repairs; research and development costs; and indirect costs of unit equipment used with the tank, transportation and common items for the production base.

The table below shows the cost build-up from the original hardware unit cost to the current estimate of the system acquisition unit cost in 1972 dollars, 1982 constant dollars, and in inflated dollars measured across the life of the program.

M1 UNIT COST SUMMARY

[Dollar amounts in thousands]

Category	1972 dollars	1982 dollars	Escalated dollars through fiscal year 1988
DTHUC goal plus program changes: Increase in tank buy—3,312 to 7,058, increase in production base: add 120-mm gun program	$507.8	$1,616.5	$1,971.0
Current DTHUC estimate plus additional cost elements: Initial production facilities: project management and support; test training, and support equipment, initial spares and repair parts	530.5	1,689.0	2,106.0
Current procurement unit cost estimate plus RDTE cost	637.6	2,029.7	2,493.4
Current program acquisition unit cost estimate plus indirect costs: Armor unit equipment used on tank; transportation; production base support costs	720.9	2,294.9	2,628.5
Current system acquisition unit cost estimate	771.1	2,454.6	2,807.7

Mr. CARLUCCI. It is probably in the neighborhood of $1.6 million

Dr. DELAUER. O. & M. and spares and everything else, if you did it at that particular time, it would probably double the cost. So instead of $500,000 it would be $1 million. Still it is inflation and cost growth from $1 million to $2.8 million.

Senator EXON. You made a statement a few moments ago—and I am wondering if we go too far in some of these matters—you used some phrase, something like the "outer perimeters of technology." Do you think it is a sound complaint that sometimes we do overreach ourselves in trying to perfect the ultimate in many of our weapon systems? Is it true that from what I have heard frequently, that the Soviets are not as highly technical in their tanks and in other types of weaponry; they simplify them? They are not as good but they are able to make a lot more of them that will eventually do the job? Do you think it is legitimate that possibly we do have a tendency to always overreach and therefore do have the dual problem of not being able to move a weapon system ahead as quickly as we would want, and, second, we seem to continually run into very serious cost overruns?

Mr. CARLUCCI. Senator Exon, there are a lot of issues in your question. It is true that some Soviet weapon systems are not as good as ours. On the other hand they have developed many, many highly sophisticated systems that have a great deal of capability. The MIG–25, the Oscar submarine, the SS–18. The fact is that in previous struggles we have won on our technological edge. The Soviets have followed a policy of amassing overwhelming force. If you just take the ratio of tanks, it is 4 to 1. If you look at what they are doing in ICBM's, their production rate in ICBM's is well over 2 to our 1. Even though we are building our defenses back up I don't think it is practical to think in terms of catching the Soviets in quantity. Therefore, we must maintain our technological edge. This means sophisticated equipment.

It is not true automatically that sophisticated equipment is less reliable. There is data to indicate that sophisticated equipment in many instances is more reliable than less sophisticated equipment. But what it does do. is that it costs more and it costs more to maintain the spare parts and to repair it when it is down. You have to go through a different process if you have a computer in an airplane than if you don't. It is important that funding be built into the system at the outset. There has been a tendency on the part of program managers, because of budget constraints, to skimp on the readiness, sustainability, and the spare parts issues. Also because of budget constraints in the past there has been a tendency to look at the glamorous new weapon systems at the frontiers of technology rather than building on systems we already have.

Consequently we have, as 1 of our 32 initiatives advocated an evolutionary approach, preplanned product improvement. I would like to read to you a memo dated July 6 that I have sent to the services on this issue which calls for them in the next 90 days to examine ongoing and recently fielded major programs for potential P^3I applications, estimating the benefit and present appropriate programmatic recommendations at the next milestone decision point, to include preplanned product improvements in the acquisition strategy for all new programs.

We are trying to get away from the tendency to move toward more or less esoteric systems. This does not mean that we are not going to continue to emphasize R. & D. and to explore these systems but we want to make sure that they are solid systems before we move into the development and production status.

Senator EXON. Thank you, Mr. Chairman.

Chairman TOWER. I might say that if we built a comparable number of tanks as the Soviet Union and made them very simple there also would be far more hazard involved to the people who have to operate them. I might note we would have to build a much bigger land Army. The Soviets have a land army that is substantially larger than ours. Do we want to go that route? In fact a recent statement made on the networks that the Soviets are going for a greater number of simpler systems is not true.

In fact in the range of infantry systems they are qualitatively better than we are and more numerous than we are. It should be understood if we want to get into this numbers game with the Soviets we have to be talking about 4 million members in the Armed Forces in addition to a lot of cheap systems. I don't want to send Americans up in the air to face a MIG–25 in something as comparable as a F-86. It will be shot out of the air. You could send six of them up against a MIG–25 and they would all get shot down.

What value do we place on human life? Maybe it is cheaper than expensive systems. But I get a little tired of hearing some of this misrepresentation about the Soviets having numbers of cheap systems, why don't we ape them by getting cheap systems. The T–72 is not a cheap system. It is just about as good as our M–1.

Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman.

Senator Exon raised the question of the Infantry Fighting Vehicle. I would like to pursue that for a moment. You indicated you would need some of the money for what you are undertaking now, and on

that second source question you are not sure whether or not the second source should be limited to the prime. I tend to agree with you, I don't think it should be limited to the prime. I am wondering with that modification in the amendment whether you would support it.

Dr. DeLauer. We are taking a good look at it, Senator Levin. I can't tell you exactly whether the Army is going to come in and recommend that we go with another new prime and split the buy or whether we stay with the single prime but have competition at the first tier or the second tier. That is what the analysis is going to be. We are asking the people who are potential competitors to help do the analysis.

Senator Levin. I am just talking about the amendment which provides the $50 million in the event you want a second source. I am saying if that amendment is in the bill which we have to reconcile in the next few days which says if you decide on a second source, the prime or the sub, that $50 million is hereby made available, do you support that? It may not be enough.

Would you support an increase?

Dr. DeLauer. I would like to know more about exactly what we are going to do before I can say right now that we support that particular issue. I can't give you an answer right now.

Mr. Carlucci. We would rather have some money in than no money in obviously.

Senator Levin. You would rather have 50 than nothing, is that right?

Dr. DeLauer. That is right.

Senator Levin. Back to your recommendation, I have tried to go over this with my staff while the hearing has been going on. As I understand the recommendation, it is that the acquisition management activities in the various services and defense agencies establish appropriate program objectives to enhance competition. I am reading from your recommendation 32. Can you tell us how many of those services and defense agencies already have appropriate program objectives? Can you give us an approximate number that have them already and those that don't?

Mr. Carlucci. To enhance competition?

Senator Levin. Yes.

Mr. Carlucci. That is a program objective that runs throughout the Department. Every office that is engaged in acquisition has competition as a program objective. The purpose of that number was to emphasize it and to set up a mechanism for tracking it.

Senator Levin. Maybe you could help me out then. Your recommendation was made to you which you approved that you require services and defense agencies to establish management programs to increase competition by setting up objectives.

Mr. Carlucci. That is right. What I said is that these services do have competition as an objective. It has been in our procurement regulations for some time. What we are now trying to do is set up goals for them to reach.

Senator Levin. How many of them already have goals?

Mr. Carlucci. I can't answer that off the top of my head.

Dr. DeLauer. As you know, the Air Force has goals because General Slay established goals some time back.

Senator LEVIN. I just need a number, if you have it.
Dr. DELAUER. We will respond to this matter for the record.
[The information follows:]

GOAL SETTING

The Air Force and the Defense Logistics Agency use goal setting as a management technique to increase competition. The Navy and the Army, to our knowledge, have not established specific goals. However, all DOD Components place continued emphasis on competing purchases of supplies and services whenever feasible. The Deputy Secretary of Defense, on July 27, 1981, issued a memorandum to DOD Components requiring each to establish management objectives for the enhancement of competition (copy attached).

THE DEPUTY SECRETARY OF DEFENSE,
Washington, D.C., July 27, 1981.

Memorandum for Secretaries of the Military Departments, Chairman of the Joint Chiefs of Staff; Under Secretaries of Defense; Assistant Secretaries of Defense, General Counsel; Assistants to the Secretary of Defense, and Directors of the Defense Agencies.

Subject: Increasing Competition in the Acquisition Process.

The value of competition in the acquisition process is one of our most widely accepted concepts. We believe that it reduces the costs of needed supplies and services, improves contractor performance, helps to combat rising costs, increases the industrial base, and ensures fairness of opportunity for award of government contracts. Despite our beliefs and efforts at furthering competition, there is a serious concern that our achievements are not adequate. Many in government and industry believe that we award too many contracts without adequate competition.

I am therefore asking that managers at all levels renew their efforts to obtain maximum competition for their contractual requirements. I have directed that my memorandum dated April 30, 1981, on "Improving the Acquisition Process" be amended to add a recommendation on competition. A copy of that recommendation is attached. It will receive the same intensive implementation and follow-up attention as the earlier recommendations.

Achievement of competition in acquisition crosses many functional areas: procurement, program management, engineering, financial management, legal, supply, maintenance, and others. For this reason, individuals who have responsibility for coordinating these disciplines must become personally involved to ensure that appropriate plans and procedures are followed.

I request that each Military Department and Defense Agency having procurement authority establish management objectives for the enhancement of competition. Please send your plans for this program to the Under Secretary of Defense for Research and Engineering within 60 days of the date of this letter.

FRANK C. CARLUCCI.

Senator LEVIN. Will you tell us how many of them already have goals? If you could indicate when you can expect them to take this action for the record, whether of not they will be comparing prior years both in number of contracts and in dollars as part of that response.

Mr. CARLUCCI. Yes, sir. We will be comparing them with prior years. We intend to implement that as rapidly as possible.

Senator LEVIN. The GAO study which was recently conducted for the House for Congressman Stephen Solarz identified 25 contracts out of a random sample of 109 noncompetitive contracts that should be awarded competitively. Twenty-five out of a 109. Do you agree with that finding of the GAO?

Mr. CARLUCCI. I have not personally studied that GAO audit. I would have to submit something for the record.

Senator LEVIN. If you will do that it will be helpful as well.
[The information follows:]

The GAO report referred to, "DOD Loses Many Competitive Procurement Opportunities," was transmitted to us in draft form for comment on March 9, 1981. While it concluded that 25 contracts out of a random sample of 109 noncompetitive contracts were inappropriately awarded noncompetitively, it did not cite any contract numbers and only described six of the 25 contracts. Even for these six contracts, the information was not sufficient to make unequivocal determinations that they were or were not inappropriately awarded noncompetitively.

A copy of the DOD response to the GAO draft report is attached.

THE UNDER SECRETARY OF DEFENSE,
Washington, D.C., April 15, 1981.

Mr. DONALD HORAN,
Director, Procurement Logistics and Readiness Division,
General Accounting Office,
Washington, D.C.

DEAR MR. HORAN: This is in reply to your letter to Secretary of Defense regarding your report dated March 9, 1981, on DOD Loses Many Competitive Procurement Opportunities, OSD Case No. 5658, GAO Code 950575.

The report observes that there has been a decline in price competition over the past few years. It is the policy of this Administration to effect efficiencies and economies in the acquisition process. Wherever it is feasible and practical, contract awards will be made on a competitive basis. The report notes that the decline in competition is primarily attributable to the loss of competition for petroleum and nuclear submarines; emphasis on design and technical competition; and set-asides for minority enterprises. These factors will continue to dampen overall price competition.

As to the report's five recommendations, we concur with the thrust of the first concerning the need to justify noncompetitive procurements and the fifth concerning the need of the Defense Nuclear Agency to take steps to reduce its use of early starts and unsolicited proposals. However, we believe our guidance on sole source justification set forth in the Defense Acquisition Regulation, which has been expanded upon by the Military Departments and Defense Agencies, is sufficient. The Defense Nuclear Agency advises that they have already strengthened controls over their procurements.

The other three recommendations deal with establishing and monitoring percentage goals for improving competition. We do not concur with these recommendations. Goals would be impracticable to establish and monitor in any meaningful way. Time spent by operating and management personnel on such a system could be better spent on productive work. There are too many external and uncontrollable factors, such as changing requirements, the variable procurement mix, funding fluctuations, general economic conditions, and socioeconomic programs, that can affect statistical performance. [1]

We believe a better approach is to motivate contracting officers and their superiors to foster competition to the greatest extent possible. Individual contracts must be considered for competition prior to solicitation and in the preaward review process. The effectiveness of the program is monitored by procurement management review and internal audit personnel. Review of monthly procurement statistical reports detect trends in the competition area so that early attention may be given to identifying and correcting problems.

The opportunity to comment on your report is appreciated.

Sincerely,

JAMES P. WADE Jr.,
Acting Under Secretary
for Research and Engineering.

Senator LEVIN. Back to the debarment issue. The Office of Federal Procurement Policy recently published a draft policy in the Federal Register which addresses some of the problems of debarment and suspension of the contractors that defraud the Federal Government. One of the key provisions of that directive is that debarment and suspensions by one agency will be presumptively binding government-wide on other agencies. My question to you is, Will you be supporting

[1] This matter is being reconsidered as noted in the attachment to the insert on page 74, line 5.

that directive and second will you be supporting the amendment in this bill introduced by Senator Cohen and co-sponsored by me that has the same effect?

Mr. CARLUCCI. If we have a national security exemption, there may be causes for disbarment which are totally unrelated to defense contracting. We need to have some flexibility as we look at this issue. It may be, for example, because of an equal employment issue. While I am sympathetic to equal employment, we may have a compelling national security reason for going ahead with this contract.

Senator LEVIN. There are exceptions built into this amendment.

Mr. CARLUCCI. With those exceptions we have no trouble.

Senator LEVIN. Will you look at section 921? There was a question raised whether DOD supports that section.

Mr. CARLUCCI. If my memory serves me correctly I gave some instructions supporting its thrust.

Mr. DELAUER. I was concerned about the nonfraud aspects of debarment. Debarment is a funny term and it can be utilized in other cases. So Frank came back and said to me "Look, let us support this thing and then worry about the definition of debarment at a later stage."

Senator LEVIN. I don't think we have received that letter. If we have not, send us a copy.

[The information follows:]

Attached is a letter of July 31, 1981, to the Chairman, Committee on Armed Services, U.S. Senate, setting forth the DOD position on section 921 of S. 815. Also attached is a letter of June 12, 1981, to the Deputy Director, Office of Management and Budget, concerning debarment.

OFFICE OF THE SECRETARY OF DEFENSE,
Washington D.C., July 31, 1981.

Hon. JOHN TOWER,
Chairman, Committee on Armed Services,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the course of the hearings your committee conducted on July 28, 1981, two sections of S. 815 were discussed that require a more affirmative position by this Department. One is section 908 concerning sole-source contract awards, and the other is section 921 concerning debarment or suspension of a contractor by another agency.

Section 908 provides that no sole-source contract exceeding $100,000 may be awarded, unless it is preceded by a 30-day public notice published in the Commerce Business Daily (CBD). It further requires the Secretary of Defense or his authorized designees to approve sole-source awards with authority to waive the requirements because of national security reasons. An annual report of sole-source awards is also required.

Section 2304(a) of title 10, United States Code, and the implementing regulations issued by the Department of Defense require that determinations be made before negotiation of a contract can be conducted. As a part of this process, special attention is given to proposed sole-source awards to ensure the need to award on a sole-source basis is justified.

Additionally, the Defense Acquisition Regulation, Section I, Part 10, which implements a requirement in the Small Business Act, currently requires publicizing (synopsizing) in the CBD, at least 10 days before,[1] proposed procurements of $10,000 or more, with some limited exceptions; e.g., perishable supplies, utility services, and urgent procurements.

It is our opinion that section 908 conflicts and duplicates existing regulatory requirements, and it does so in a manner that would create needless and unnecessary paperwork and will extend procurement lead time for those procurements that are required to be publicized. For this reason, we are opposed to section 908.

[1] Solicitation.

Section 921 prohibits this Department from soliciting offers or awarding contracts to contractors that have been debarred or suspended by another agency, unless there are compelling reasons to proceed with the purchase. This flexibility meets our basic objection; but this is a government-wide matter, and any such requirement should be applicable to all agencies—not imposed in legislation applicable only to Department of Defense procurement.

Actually, no legislation is needed. The Office of Federal Procurement Policy issued on 16 July 1981, for public comment, a proposed Policy Letter 81–3 providing policy guidance concerning government-wide debarment and suspension. The proposed policy would have the same effect as section 921. We believe this to be a preferable approach.

I believe it essential that careful consideration be given before imposing any additional legislative requirements on the acquisition process. The process is already overburdened with legislative, regulatory, and costly administrative requirements. Our objective in improving the acquisition process is directed at obtaining quality supplies and services at the least cost, or stated another way, containing cost growth.

ROBERT F. TRIMBLE,
Acting Deputy Under Secretary
(Acquisition Management).

THE DEPUTY SECRETARY OF DEFENSE,
Washington, D.C., June 12, 1981.

MR. EDWIN HARPER,
Deputy Director, Office of Management and Budget,
Washington, D.C.

DEAR MR. HARPER: This is in response to your recent memorandum requesting information on our position as to a Senate amendment to the DoD authorization bill that would make debarment by another agency binding on the Department of Defense.

We do not oppose the proposed amendment. It would require us to treat a firm as debarred, if that firm were debarred by any other agency. However, it would permit us to proceed with the purchase where there is a compelling reason to do so. This flexibility meets our basic objection, and we have determined that this concept is acceptable. We do feel, however, that this is a Government-wide matter, and that any legislation should be applicable to all agencies.

Actually, no legislation is needed. We have been working for some months with the Office of Federal Procurement Policy to develop a new debarment regulation that would be applicable Government-wide. We have agreed to include in the regulation a provision that would have the same effect as the Senate amendment to the DoD authorization bill.

Sincerely,

FRANK C. CARLUCCI.

Senator LEVIN. I want to go back to another case which is the debarment by another agency which should be presumptively binding on you other than for compelling reasons. In the case of the Engineering Corps, again I said there were 55 companies, 9 individuals convicted of bid rigging against the Army Corps of Engineers. Since the date of the indictment $250 million in new contracts were awarded.

Listen to this. Since the date of conviction $81 million in new contracts has been awarded. One contract for $31 million was awarded 4 months after the conviction of the contractor. We have looked at nine of those postconviction contracts. In seven of the nine contracts there was at least an indicted bidder.

Another one. The reason that the Army Corps gave for not debarring, which is that these companies were needed to do the job, was not true in seven of nine contracts that we looked at.

Now we have had hearings on fraud that is perpetuated against Government agencies, not just against DOD. Our hearings in the Subcommittee on Governmental Affairs that Senator Cohen chairs,

goes much beyond, but we came up with examples both where DOD does not give presumptive validity to other agencies debarring. Now this case comes to my attention which I frankly find to be unbelievable.

Mr. CARLUCCI. I find it to be unbelievable as well. I certainly would like to look into that. Let me make a couple of comments. I agree our procedures in this area need to be tightened up. We have, as I indicated in my statement, told the Services and the Defense Contract Audit Agency to engage in a new process of audit resolution on preaward evaluations. We are setting up a new system where, on contract actions over $500,000, any disagreement between the auditor and contracting officer will be elevated to an independent acquisition officer or board for resolution.

Second, we do need in DOD as a whole to have a better corporate memory on contractor performance. I would refer you, Senator Levin, to recommendation No. 20 of the 32 points which says that—

> Some DOD competitively selected contractors are performing poorly. In some instances source selection criteria does not sufficiently take into account past performance on plans for future phases of the program.

The recommendation goes on to direct acquisition officials to set up tracking systems, and certainly such things as you describe, including debarment, would be included in a tracking system of that nature.

Senator LEVIN. My time is up. Thank you.

Chairman TOWER. Thank you very much, Mr. Secretary and gentlemen, for coming today and being responsive to our questions. I want to wish you well in this endeavor. Be assured that we will be looking over your shoulder and hopefully I want to cheer you on. We do intend to exercise our oversight responsibility because we believe the public demands it of us.

We believe we can sustain support for increased defense spending only so long as we give the American people their money's worth. You gentlemen are charged with that responsibility. It is an awesome task. Good luck.

We would appreciate expeditious response to questions that are submitted for the record.

[Questions, with answers supplied, follow:]

QUESTION SUBMITTED BY SENATOR STROM THURMOND

FIVE-YEAR PROCUREMENT PLAN

Senator THURMOND. Mr. Sherick, what is the status of DOD's long range planning process? What progress has been made on a 5-year procurement plan?

Mr. SHERICK. For your first question on long-range planning, we are making major changes to strengthen our strategic planning in DOD. As Mr. Carlucci indicated, one of the most important of these is the strengthening of the Planning Programing and Budget System, the PPBS, with more emphasis on that first "P". Front end planning is the absolutely essential characteristic of an improved system featuring the principles of centralized policy direction, decentralized execution and participatory management. The revised system is designed to:

> Define the national military strategy necessary to support our foreign policy and provide security for our people.
>
> Help us achieve the integrated and balanced military forces necessary to accomplish that strategy.
>
> Help assure that we are significantly ready in all aspects to deter aggression and to succeed where armed intervention is necessary.
>
> Provide the framework necessary to manage the Defense resources effectively and to ensure successful mission accomplishment consistent with national resource limitations.

The improved planning process will contribute to these management goals by:

Assuring that the Department's programs and budgets are responsive to our national objectives, defense policy, and strategy.

Improving decision-making by developing the best possible advice of the military and civilian professionals in the Department.

Enhancing active cooperation among the Military Services and all components of the Department toward our common goals.

Although we are already utilizing some elements of this new planning process in preparing the fiscal year 1983 budget, it will not be instituted fully until we initiate planning up front for the fiscal year 1984 program and budget.

As for your second question on a 5-year procurement plan, such requirement is a central thrust of the DepSecDef acquisition initiatives of April 30. Initiative No. 29 calls for the integration of the DSARC and PPBS decision process and Initiative No. 4 directs major systems be fully funded in R&D and procurement to levels necessary to accomplish the program milestone decision. Variations from the established program baselines are to be explained and justified by the Services during budget reviews. We are constructing a new 5-year plan as a consequence of conducting the fiscal year 1983 budget review. The review includes examining the Services' budget proposal in regard to conformance with previous DSARC or OSD program review direction and compliance with the April 30 guidance that programs be stabilized and funded at economical production rates. The new 5 year plan will be submitted in support of the fiscal year 1983 Defense Budget in January 1982.

Question Submitted by Senator John Warner

COMPUTER (ADPE) ACQUISITION IMPROVEMENT INITIATIVE

Senator Warner. I wish to commend you and Secretary Weinberger for your efforts to streamline and simplify the procedures whereby the Department of Defense acquires the various weapons and associated systems required by the national defense. In particular, your support for an initiative of the Senate Armed Services Committee aimed at accomplishing these ends with respect to the procurement of automatic data processing equipment and services employed in support of critical defense missions is greatly appreciated.

As you know, much of the responsibility for successful administration of the modified procurement procedures for ADPE and services in these sensitive mission areas will reside with the Department of Defense. The Congress will be monitoring developments in this area very closely. As a result, it seems to me to be essential for you and Dr. DeLauer to continue to take a personal interest in acquisition policy regarding automatic data processing equipment and services.

Do you agree that, in light of congressional interest and because the success or failure of other DoD procurement initiatives may be influenced by the Department's demonstrated performance in the ADP area, the reform of DoD's ADP acquisition process should be given the status of one of your "Acquisition Improvement Initiatives"?

Mr. Carlucci. We wish to thank the committee for giving us the opportunity to develop better management methods in the acquisition of computers for our "mission" systems. Clearly the technology and the needs for automation have leapfrogged our acquisition process in this area and we must rationalize the process in light of these needs. We are not alone here: major industries have emulated the government's management processes for so-called "ADPE" and they, too, have found that more flexibility and responsiveness are required. We see them moving to a more normalized approach which recognizes the need for modernization and preplanned replacement of these large, but perishable, capital investments. We hope to lead the way in improving the use of automation but, in any event, we can ill afford to lag behind the private sector by several generations of technology as we clearly now do.

We intend to develop a new approach to the acquisition of computer resources, the end use of which is the direct and dedicated application to the Department's military mission. This, quite simply, means any acquisition (including lease) of automatic data processing equipment or services which: "(1) involves intelligence activities; (2) involves cryptologic activities related to national security; (3) involves the command and control of military forces; (4) involves equipment which is an integral part of a weapon or weapons system; or (5) is critical to the direct fulfillment of military or intelligence missions. * * *"

We will aim to simplify the acquisition and management process to assure that the most appropriate computer or automation technology is available for defense system applications in a timely and affordable fashion. We also intend, insofar as possible, to assure that these high-technology assets are supportable, both as regards hardware and software, and that a mechanism exists to guard against obsolescence.

I have asked Dr. DeLauer to issue the necessary directives and instructions to implement the committee's initiative. I feel this approach will be adequate. We wish to hold the number of acquisition improvement initiatives to a minimum and believe normal management processes will suffice here. I assure you that this issue will continue to receive my personal attention and that of Dr. DeLauer.

Dr. DeLauer has chartered a Defense Science Board Task Force on Embedded Computer Resources (ECR) Acquisition and Management. One of their first tasks will be to advise us on the policy and management changes needed in this area.

Questions Submitted by Senator Roger Jepsen

MULTIYEAR PROCUREMENT

Senator Jepsen. I obviously support the concept of multiyear procurement. I am concerned, however, that it be implemented in the proper manner. Mr. Carlucci, in your "Special Memorandum on Multiyear Procurement," issued in April, you laid out the criteria for decisionmakers to use in their selection of candidate programs. One of the criteria you listed was "substantial cost avoidance or other benefits when compared to conventional annual contracting methods." You then defined savings as "significant either in terms of dollars or percentage of total cost." What specific dollar amounts or percentages will you be using to determine significant savings? How will the question of risk to the government be used in that determination?

Answer. We have no specific percentage or dollar figure in mind. However, there must be a positive benefit to the Government. We expect savings to approximate 8 to 12 percent over annual buys. As to risk, the following criteria will be used in the process of deciding whether or not a program will be considered for multiyear application:

1. Significant cost avoidance when compared to annual contracting;
2. Stability of requirements;
3. Stability of funding;
4. Stability of the configuration;
5. Degree of confidence in contractor capability.

Senator Jepsen. Mr. Carlucci, at what point in the milestone process will a program be approved for multiyear procurement? Have you developed guidelines for Economic Price Adjustment (EPA) clauses for multiyear contracts? How would these differ from those offered on normal contracts?

Answer. The potential for multiyear application of a major systems program will be considered in the Defense Systems Acquisition Review as early as feasible, but usually at the last milestone where production is approved. However, most often, the decision on multiyear application will come after initial production when the program becomes mature and stable. Multiyear application at that point will become a normal part of our annual programing and budget system. As to use of economic price adjustment clauses in multiyear contracts, we believe our existing guidance in Defense Acquisition Regulation 3–404.3 on the use of such clauses, is adequate. Clauses tailored to the specific circumstances of a major procurement under the published guidance would be expected.

THE DEPARTMENT OF DEFENSE INDUSTRIAL PREPAREDNESS PROGRAM

Senator Jepsen. Mr. Carlucci, a GAO study released on May 27, 1981, reported that the Department of Defense Industrial Preparedness Program has been given a very low priority and is ineffective. In view of the sad state of our defense industrial base, what steps have been taken to make this program effective? What other specific initiatives have you been developing to improve the defense industrial base?

Answer. The Secretary of Defense has revised Defense Policy Guidance to the Services and Defense Logistics Agency (DLA) that establishes this program as one of our highest priority efforts. As part of this endeavor we have made the

Service/DLA, Program/Project and Item Managers responsible for conducting required planning through at least the second tier sub-contractor level. In addition the Under Secretary of Defense (Research & Engineering) has established an executive level group to screen and recommend industrial base initiatives to improve production capability. The initiatives selected will be those that give us early-on improvement in productivity, reduce near and long term costs, reduce lead times, reduce foreign dependence and improve our overall readiness as soon as possible. The majority of these preparedness measures will appear in our fiscal year 1983 program and in the out-years.

IMPLEMENTATION OF MORE EFFECTIVE READINESS AND SUPPORT PLANNING EARLIER IN THE ACQUISITION PROCESS

Senator JEPSEN. Mr. Carlucci, last week I attended a hearing on the M1 tank. One of the major problems that we discussed was the lack of integrated logistics planning early in the program which is expected to result in higher support costs through the life of the program. Your April 30, 1981 memorandum on improving the acquisition process lists improving system support and readiness as a goal. Could you explain what has been done to date to implement more effective readiness and support planning earlier in the acquisition process? How will this affect initial program costs?

ANSWER. On 13 June 1981 I sent guidelines to the Services which emphasized the high priority placed on readiness. These guidelines require earlier consideration of integrated logistics planning in our acquisition process. In addition it directs the Services to implement the recent acquisition policies (per DODD 5000.2 and DODD 5000.39) which give substantially more emphasis to support considerations including development of specific procedures to review the needs for each program. The revised policy will require more front end funding of logistics items. However, it will help hold down costs through the life of the program. It is not possible to estimate at this time the increase in initial program costs because each program must be evaluated on the basis of its specific readiness objectives.

PREPLANNED PRODUCT IMPROVEMENTS

Senator JEPSEN. Mr. Carlucci, you have mentioned instituting the concept of "Pre-planned Product Improvements" as a means of introducing incremental system upgrades throughout the life of weapons program. This will reduce the risk of introducing new technologies as well as control cost overruns. Is this being developed as an alternative to relying on new state-of-the-art technology weapons design? If so, what effect will this low-risk strategy have on our technology base?

ANSWER. Our intent is to examine evolutionary or lower risk alternatives where revolutionary solutions or solutions at the "frontiers of technology" are being considered for system applications. I believe it is important to do this in order not to jeopardize schedule, test and performance goals on entire systems by the premature introduction of some highly advanced technology. I consider it prudent to introduce such items on a product improvement basis as the technology matures. This in no way implies that we are lessening our use of new or state-of-the-art technology as provided via the technology base. The technology base will continue to be our prime source of new and innovative technical options for the solution of future national security problems. We believe the concept of Pre-planned Product Improvements will significantly increase the timely utilization of technology developed by our technology base program and so increase its overall effectiveness and usefulness.

QUESTIONS SUBMITTED BY SENATOR HARRY F. BYRD, JR.

SECOND SOURCE COMPETITION

Senator BYRD. Secretary Carlucci, what is the Department's position on the use of second-source competition to reduce costs in major weapons programs?

ANSWER. Our position is in strong support of second-source competition both to reduce cost and to strengthen the industrial base. Our efforts to establish second sourcing ideally begin with an acquisition strategy formed during a program's concept phase. This strategy sets forth the use of competitive conceptual approaches and will define the role of competition to be carried through development and into the production phase. Early planning is essential to obtaining competition in

production. It is extremely difficult to introduce second sourcing to a program once the contractual provisions for rights and data, facilitization, tooling and funding profiles have been established, the program has been initiated and contractors have become well entrenched in sole source positions.

SECOND SOURCE CANDIDATES

Senator BYRD. Secretary Carlucci, does the Department have any candidate programs to expand the scope of second source competition—starting in fiscal year 1983?

Answer. Answering from the standpoint of competition at the prime contractor level, we are looking carefully at the Fighting Vehicle System (FVS) and Multiple Launched Rocket System (MLRS). The FVS is the subject of an ongoing "production analysis" phase effort being performed by three potential second sources. This study phase is scheduled for completion in early current year 1982. Providing the results are favorable a prototype fabrication and qualification contract could be let in late current year 1982 with an "educational buy" following in fiscal year 1983. Similarly a MLRS second sourcing of rockets could be initiated in fiscal year 1983 with an educational buy in fiscal year 1984. In these two as with all potential applications a positive return on second sourcing investment costs requires the programs be stable, and of sufficiently high volume and long term duration in procurement.

MULTIYEAR CONTRACTING—SECOND SOURCING

Senator BYRD. Secretary Carlucci, do you see multiyear contracting and second-source competition as approaches to procurement that reinforce one another, or do you think they work at cross purposes?

ANSWER. We believe multiyear contracting and second sourcing are complementary. Second sourcing does two key things. It broadens the capability of the industrial base to respond to requirements and it provides a means of introducing competition in procuring future requirements. Multiyear contracting is method of procurement that involves a commitment by the Government to a contractor for the acquisition of a weapon system over a period of more than one year. There is nothing inconsistent with establishing a second source and having both performing under a multiyear contract, In fact, it may be quite beneficial. We could also envision two sources competing for a final buy-out of our inventory needs with a multiyear contract going to the winner.

Senator TOWER. The committee is adjourned.

[Whereupon, at 12:10 p.m., the meeting was adjourned, subject to the call of the Chair.]

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